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I. Events during the operational year and key figures for 1999 and 2000

January

ICEROSS DERMO, the new silicone liner with Aloe Vera, is launched in the USA.

February

Össur's proposal for the acquisition of all shares in Flex-Foot Inc. is accepted by Flex-Foot's owners.

March

The Company's annual meeting is held on 24 March. The Board of Directors is authorized to increase the number of Össur shares to the value of ISK 70 million.

April

The Flex-Foot acquisition closes. Flex-Foot Inc. forms part of the consolidated statement of Össur from 3 April.

May

The successful secondary offering of shares in Össur hf., totalling ISK 60 million, gives the company ISK 3.780 million in liquid funds.

June

The Össur USA office in Baltimore, Maryland closes down and its operations are merged with those of Flex-Foot in Aliso Viejo, California. Össur stock is the first to be traded electronically in a new system for electronic share listing in Iceland.

July

Profits after taxes and before irregular items are announced for the first 6 months of the year: ISK 137 million and EBIDTA, ISK 209 million.

August

Materials and manufacturing processes are finalized for the production of ICEROSS Sport, the new high activity liner.

September

The Company announces the acquisition of all shares of the Swedish distribution and manufacturing company, Pi Medical, and the distribution company, Karlsson & Bergström, also from Sweden.

October

R&D finalize negotiations for a European research grant worth ISK 130 million.

November

The Company announces the acquisition of all shares in Century XXII Innovations Inc., US specialists in the production of knees and components. Pi Medical and Karlsson & Bergström become part of the Össur Group from 1 November.

December

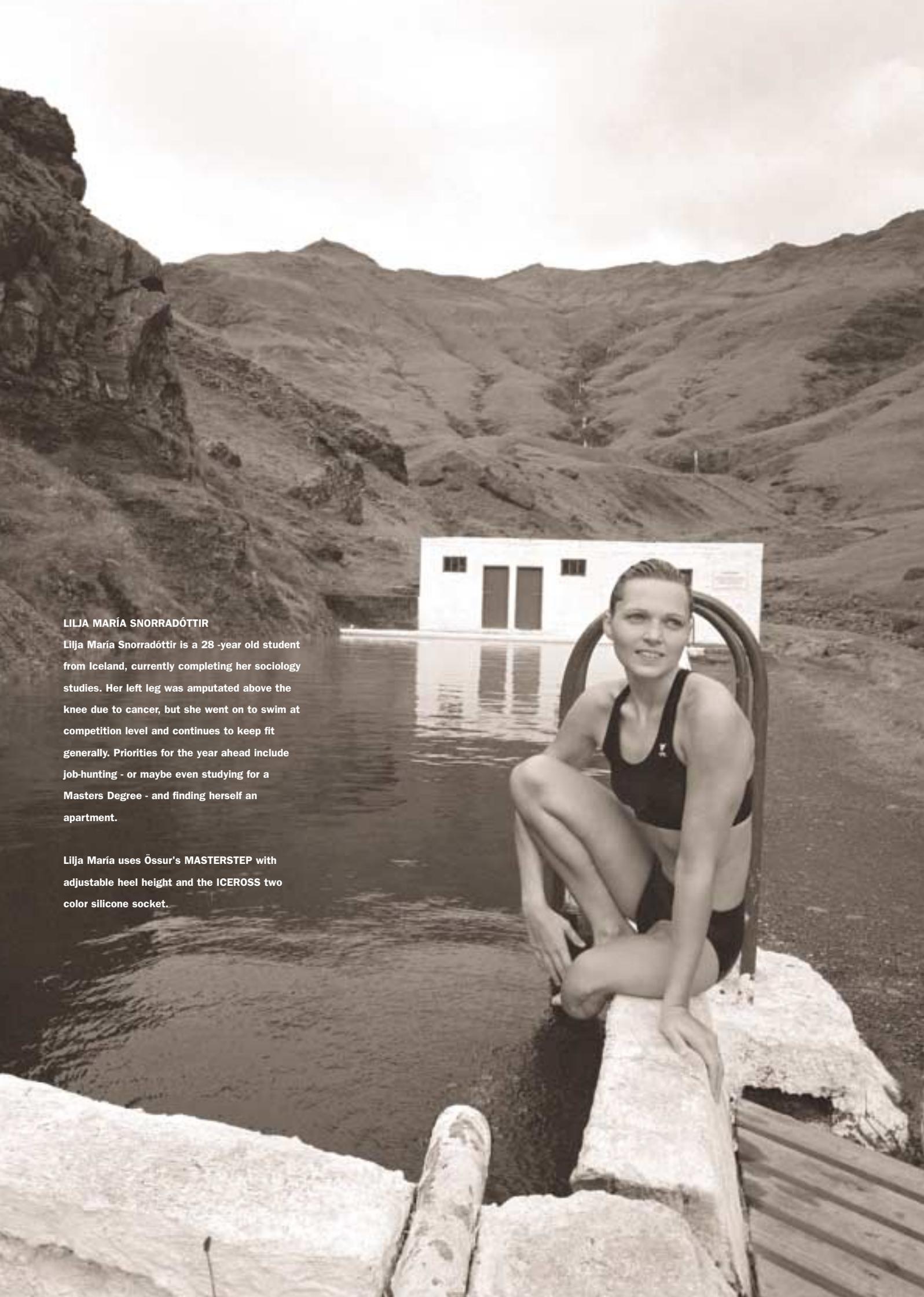
Company restructuring takes effect in accordance with a new organizational chart. A shareholder meeting authorizes the Board to issue 50 million shares in a transaction for all shares in Century XXII Innovations Inc. Century XXII becomes part of the Össur Group from 4 December.

Össur's domestic retail operation, Össur-Hjálpar-tækjabankinn, is incorporated into a new company, Eirberg. Co-founders Ó. Johnson & Kaaber and Össur each have a 50% share in the new company.

Key figures 1999 and 2000

Income Statement	2000	1999	Change
Operating revenues	3.614	1.303	177%
Operating expenses	3.018	1.094	176%
Operating profit	596	209	185%
EBITDA	702	238	195%
Interest income (expenses)	-131	6	
Income before taxes	465	216	115%
Taxes	-56	-76	
Net income before extraordinary items	409	139	194%
Extraordinary income (expenses)	-7.088	0	
Net income	-6.679	139	
Balance Sheet	2000	1999	Change
Fixed assets	2.614	1.289	103%
Current assets	2.201	475	363%
Total assets	4.815	1.764	173%
Total stockholders' equity	2.146	1.387	55%
Long-term liabilities	1.172	162	
Current liabilities	1.498	214	
Liabilities and stockholders' equity	4.815	1.764	173%
Key figures	2000	1999	Change
Turnover in terms of 2000 prices	3.614	1.371	164%
Employees	327	122	168%
Current ratio	1,5	2,2	
Equity ratio	44,6%	78,6%	
Cash from operation in terms of 2000 prices	457	247	85%
– as a ratio to total liabilities	30	67	
– as a ratio to net income	1,1	1,7	
Inventory turnover, finished products	8,4	7,0	
Days' sales in receivables	50	40	
Return on total assets	8,2%	22,9%	
Return on common equity	9,0%	44,7%	
Year-end market value	21.677	8.477	
Price/earning ratio	53,0	60,8	
Price/book ratio	10,1	6,1	
Number of shares	328,4	211,9	
Profit per share	1,25	0,66	

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



LILJA MARÍA SNORRADÓTTIR

Lilja María Snorradóttir is a 28-year-old student from Iceland, currently completing her sociology studies. Her left leg was amputated above the knee due to cancer, but she went on to swim at competition level and continues to keep fit generally. Priorities for the year ahead include job-hunting - or maybe even studying for a Masters Degree - and finding herself an apartment.

Lilja María uses Óssur's MASTERSTEP with adjustable heel height and the ICEROSS two color silicone socket.

II. The Address of the President and CEO

Össur President and Chief Executive Officer, Jon Sigurdsson

In a changing industry, where competition is characterized by innovation and rapid technological development, Össur continued to take a leading role throughout 2000.

The prosthetics sector in general is driven by market changes and by demands for continuous improvement and cost-effective complete solutions. Össur is additionally driven by an unparalleled dedication to growth and quality. The company possesses arguably the best products and personnel in the industry and an equally strong vision for its future.

Last year was a very eventful year for Össur. The first, and still the only, prosthetic manufacturer to be listed on a public stock exchange, Össur was also the first to successfully acquire other major players in the prosthetics field. The acquisition in 2000 of Flex-Foot, Century XXII, Pi Medical and Karlsson & Bergström clearly reflects our main strategic initiatives - extending the company's product range towards a complete prosthetic solution and strengthening the distribution and sales system.

Trends in the Prosthetic Industry

There are two important changes occurring in the prosthetic business in our opinion. Firstly, consolidation is taking place in the service sector and, although it is not yet clear what the outcome will be, this trend has already changed the international prosthetic business. Secondly, the industry has become more advanced, both on the service and the

manufacturing side. Processes are becoming more sophisticated, as are prosthetic devices. In short, the prosthetic industry is becoming increasingly similar to other branches of the healthcare sector, where technological development and regulatory requirements are the biggest factors involved.

The increasing complexity of products and the regulatory environment, together with a more sophisticated prosthetic industry in general, makes it imperative for us to communicate directly to workshops and practitioners, to deliver complex messages and training. We believe that we can in fact do this through our trainers and sales force. We are also confident that we will be able to lead technological development in the four product groups we have organized as business units within our prosthetic division: feet, interface systems, knees and components/cosmetic covers. We will add more prosthetic products to those groups and, more importantly, we will maintain the technological leadership of Össur through a massive R&D investment that will be kept at about 6% of total revenue.

Producing the very best prosthetic devices and improving the quality of life for the users of our products, remains central to our purpose and our future. I believe the growth of this company will secure the technological developments and innovation vital for advances in prosthetics and related fields. Össur can and will exploit its existing strengths - in silicone and carbon fiber technologies, in marketing and in

sales and distribution - to penetrate new markets and broaden its portfolio of products.

2000

A clear strategy and thorough preparation have guided an assertive program of international growth that began with the acquisition of American company, Flex-Foot Inc., in April 2000. Flex-Foot contributes not only a highly respected, hi-tech range of prosthetic feet, it also brings a wealth of management and sales expertise to Össur. Flex-Foot is built on innovation and the skilled application of technology. The Mauch hydraulic knee range has been part of Flex-Foot since 1998 and it forms an important addition to our product range.

Integral to our policy of offering total prosthetic solutions is the principle of choice, to meet the needs of individuals. In December 2000, Össur shareholders agreed an increase in the share capital of the company in order to acquire producers of the Total Knee range, Michigan based Century XXII Innovations Inc. The acquisition in December of this market leader significantly enhances the complete solution that we are now able to offer our customers.

In October 2000, Össur acquired leading Scandinavian distribution companies, Karlsson & Bergström and Pi Medical, companies that previously worked closely with Flex-Foot and Össur respectively. Pi Medical has additional expertise in manufacturing and product development. Scandinavia delivers significant revenue and these acquisitions have accelerated our growth in the distribution sector. Selling direct to customers, the Flex-Foot sales team is already well established in North America and began last year to roll out its operations across Europe, selling the entire Össur product range.

Our core business continues to be the manufacture and distribution of prosthetics and related products. As part of the move away from the service sector, Össur co-founded a new healthcare business in December that incorporates its retail operation in Iceland. Both Össur and its partner in the project, Ó. Johnson & Kaaber, have a 50% share in the new company.

Future policy

Össur is poised for continued growth should the right opportunity arise. In the meantime, we are consolidating our business – integrating five companies into

one and ensuring we benefit from the inherent mix of skills and experience. Much has already been achieved in re-structuring the organization for maximum efficiency and effectiveness.

Our goal is to have direct control over our sales and marketing in all major markets. Building on the achievements of Flex-Foot's direct sales operation in North America and parts of Europe, we are implementing direct selling in many European countries this year. By developing a closer relationship in this way with the people who advise on and use our products, we will increase our responsiveness and ultimately our revenue.

Already best placed in the industry to make further acquisitions, Össur will be looking to broaden its capital base in the not too distant future. A secondary listing is something we will consider. We have developed a critical mass sufficient to secure the critical spend on R&D that will mark our future success. I believe we have assembled some of the most distinguished trademarks and skilled personnel in the industry and we will certainly continue to develop and add to our core strengths.

Jon Einarsson



III. The Company

Today Össur is a dynamic and highly innovative company, with over 320 members of staff operating from eight locations across the world. The company expanded significantly during the year 2000 and is poised for continued growth and development.

The original company started life as a prosthetic clinic in 1971, founded by prosthetist Össur Kristinsson in conjunction with a number of disability organizations in Iceland. He and his family owned the business from 1984, and Mr Kristinsson remains on the Board of Directors following Össur's listing on the Icelandic Stock Exchange in 1999. Initially serving only the domestic market in Iceland, exports began in 1986, the same year Össur registered its first patent.

Over the last decade, Össur has grown from being a local prosthetics facility with a handful of staff into the second largest company in its field internationally, several times larger than its next competitor. Throughout its rapid growth the company has maintained profitability.

A growing population, cutting-edge technology, and demand for a better quality of life have all contributed to evolutionary growth in the healthcare industry. In recent years, the prosthetics sector has moved closer to the general health market. Prosthetic devices are now subject to the many laws and complex regulations governing the health industry, and the trend among prosthetic companies is increasingly toward consolidation and the development of more comprehensive solutions.



The Össur group

Össur has a world-class reputation for the design and production of prosthetic liners, sockets and related components. At the forefront of research and development since 1971, it has pioneered silicone technology to great effect.

As technology in general made massive advances in the nineties, Össur utilized it to the full, creating two major breakthroughs in materials and prosthetic techniques. The development of SenSil – Össur's medical grade silicone material used in the manufacture of its ICEROSS liners – is ongoing. The new material Dermogel is exceptionally soft and

durable and Dermo, the latest silicone liner, sets the stage for new levels of skin care with its highly effective mix of Aloe Vera.

Harnessing the properties of carbon fiber, Össur also produced a new composite material and technique which combines casting, fabricating and fitting of a prosthetic socket in one simple session. The ICEX technique affords all prosthetists the same opportunity to make perfect fitting sockets of consistent quality in less time than the more conventional methods.

Össur also has the reputation of being a forward-thinking company, dedicated to improving the quality of life for the users of its products and committed to resourcing the necessary research and developmental work to achieve it. The company's policy is to strengthen and consolidate its work in the prosthetics sector and apply its expertise to related areas, including orthotics, in the future.

During the course of 2000, Össur acquired a number of companies. Joining forces with other major players in the industry has strengthened Össur's market share, broadened the company's product range and enhanced its ability to offer customers a complete prosthetic solution with choices to suit individual needs.

Flex-Foot

Market leaders in high technology lower limb prosthetic devices, shock absorption modules and related components, Flex-Foot Inc. joined Össur in April 2000. With a world-renowned foot range, increased revenue and market share every year since its inception and a highly experienced management team, Flex-Foot has brought a new and welcome dimension to Össur.

Founded in 1984 by inventor, research prosthetist and amputee, Van Phillips, Flex-Foot has 14 commercial product lines supported by 29 distinct patents. Utilizing the superior strength and flexible properties of carbon fiber, Flex-Foot has developed an innovative range of prosthetic feet which offer unparalleled function and feel to their users.

Two critical technology breakthroughs – energy storage and release (1984) and vertical shock absorption systems (1993) – were created and developed by Flex-Foot, enabling the company to differentiate its products from others on the market. Carbon composite design and capability remains a

core competency of the company. The development of a prosthetic device that could store and release energy, revolutionized the market and the aspirations of amputees. Running, hopping or jumping were considered impossible for amputees prior to the invention of the Flex-Foot. Now, the design of Flex-Foot products has dramatically enhanced the lives of many prosthetic users, and their availability to athletes around the world has redefined paralympic competition.

The company continues to work closely with top athletes, developing the most technologically advanced prosthetics to meet their needs. The sponsorship of and commitment to paralympic athletes has also proved to be part of a highly successful and high profile marketing approach. A direct sales strategy in the United States has been advantageously pursued by Flex-Foot, capitalizing on its reputation and strengthening customer relations. It now has 14 sales representatives in North America and is rapidly establishing direct sales across Europe. Flex-Foot is based in Aliso Viejo, California. It has a sales office in Eindhoven, the Netherlands, which is currently extending its marketing and distribution capabilities in order to sell the complete range of Össur products.

Mauch

Previously acquired by Flex-Foot in 1998, Mauch is a recognized leader in the production of hydraulic knees. Established in 1959, Mauch also acts as a subcontractor for another medical device company, producing custom machined, precision spinal orthopedic implants at its base in Dayton, Ohio.

The Mauch knee is widely acknowledged as the



technological leader in its field and has been used by more transfemoral (above knee) amputees than any other hydraulic unit. The marketing and sales expertise of Flex-Foot enabled Mauch to quickly increase its sales revenue by over 20% in the first year following their merger.

Century XXII Innovations

US producers of premium prosthetic knees, Century XXII Innovations joined Össur in December 2000. The company is based in Jackson, Michigan.

Inspired by the physical challenges his daughter faced after amputation some twelve years ago, Finn Gramnäs set about inventing a prosthetic knee which



would give her a normal gait. Century XXII Innovations was formed in 1993 and has succeeded in building the Total Knee brand and producing consistent growth in revenue and earnings. The product range now includes four knees, for different ages and levels of activity, as well as shock absorbers and components. The company recently entered the foot market with their Total Concept foot. Century's Total Knee brand, protected by seven patents and marketed in more than 40 countries, has significantly enhanced Össur's complete solution choice.

Opening up the sales networks of North America and Europe is an important element of Össur's growth strategy. In addition to increased revenue, direct

selling will enable the company to develop closer relationships with the people who advise on and use its products. This in turn will improve the responsiveness of the company's R&D function in developing new and even more effective solutions in the future. In support of this strategy, Össur acquired two leading Scandinavian distributors in October 2000, securing extensive access to this market.

Pi Medical

Based in Uppsala, Sweden, this long-established company has worked closely with Össur in a distribution capacity for many years. Besides direct access to the Scandinavian market, Pi Medical brings additional experience of high quality manufacturing and product development to Össur. Pi Medical was the first distributor of Össur's ICEROSS product line in 1986 and developed and patented a series of components to be used together with ICEROSS products. Two thirds of the company's revenue is attributable to sales of prosthetic and orthotic products.

Karlsson & Bergström

Respected specialists in marketing and sales, the Swedish company Karlsson & Bergström is a major distributor of Flex-Foot products in Scandinavia, with a network of sales representatives throughout Denmark, Norway, Sweden and Finland.

The two companies have combined operations and emerged as Össur Nordic AB, responsible for the Nordic and Baltic countries. Össur Nordic's Head Office is located in Uppsala and a sales office continues to operate in Helsingborg.

Össur personnel

As a hi-tech company, Össur's success lies mainly with its highly qualified and experienced personnel. Össur has had the same senior management team in place in Iceland since 1996. This well-established team has overseen the expansion and continued profitability of the company during the last few years. Joining the team in 2000 were the key managers of Flex-Foot and Mauch, Pi Medical and Karlsson & Bergström, all of whom came with their companies through the acquisition process.

The management team of Flex-Foot, brings with it a broad range of expertise from the pharmaceutical and medical sectors. Össur now has a highly effective

management structure in place, which is aiding continuity and stability through a period of integration and further developing the energies and innovative core of the company.

In addition to top business management skills there is valuable scientific, design and manufacturing knowledge within the company. The extensive development by Össur of silicone and polymer technologies utilized in its liner production is second to none, and the application of this material technology in other fields has far-reaching potential. Many of the advanced material technologies that underpin modern prosthetics, originated in aerospace and aeronautic science. Lightweight metals and metal alloys such as titanium have contributed greatly to improvements in prosthetic devices, and Flex-Foot's inspired use of carbon fiber composite has revolutionized the market. It was in 1982 that Van Phillips first met and worked with an aerospace engineer at the University of Utah, and the pair enlisted the help of an aerospace company to experiment with carbon fiber as they designed the now-legendary Flex-Foot.

As well as maximizing in-house knowledge, Össur also collaborates with a number of outside parties, universities and institutions that often manage experiments concerning new ideas, products or techniques.

Over 26% of Össur's staff are educated to university degree level and a further 30% have studied a form of higher/technical education. Total staff numbered 327 (full-time equivalents) at the end of 2000. Operations are based from eight locations worldwide. Orange County in California, Flex-Foot's base, boasts the highest density of medical companies anywhere in the world. Century's location in Michigan is close to many of the subcontractors that work with the motor industry, companies at the forefront of new metal compounds development and machining and production techniques.

A new human resource management position has been created to help ensure that Össur continues to attract and retain the very best staff internationally. Helping to integrate the company's culture throughout the new organization will also be on the agenda. The role will address training and development issues as the company grows still further, creating new career opportunities for staff.

Company mission and new structure

Össur'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.

In striving to achieve this mission, the company's work reflects its core values:

- **Customer oriented** - Our customers are the focus of everything we do; our focus is to be responsive to their needs in all our activities.
- **Quality** - We will continue to set industry standards by exceeding the expectations of our customers in the quality of products and services we deliver.
- **Innovation** - Through intensive R&D, successful commercialization strategies, advocacy and leadership, we will remain committed to continuous improvement.
- **Profitable** - We strive to operate efficiently and cost-effectively - without compromising the quality products and services we offer - to ensure all of our stakeholders receive significant value from their relationship with us.
- **Respect** - We value treating each individual with dignity and respect. We foster goodwill, understanding and equal treatment for all.
- **Teamwork** - We believe that collaboration and support among individuals, departments and associations benefits all by fostering creative thinking and efficiency to attain mutual goals.

Össur places great importance on quality, in everything that it does. Its aim is to provide products and services exceeding customers' expectations.

To achieve our mission, to fully integrate the strengths of our new companies and create a springboard for future development, Össur has developed a new organizational structure, effective December 2000 (more details, Chapter V). The company now features three principal divisions – the Prosthetic Division, headed by Maynard Carkhuff; R&D / Business Development, headed by Hilmar Br Janusson; and Corporate Finance, headed by Árni A Arason.

The Prosthetic Division is a new and large group within the company, managing product lines (via distinct business units), international manufacturing, and marketing and sales. The latter will retain a geographical focus, tailoring it's work appropriately to

carefully targeted markets, while product management is now segmented into four business units which reflect Össur's product lines. The move to direct sales means a corresponding increase in the sales teams as Össur moves closer to its goal of direct control over sales in all major markets.

The R&D division is key to future developments and Össur is determined to maintain its technological leadership. Structured to mirror the company's product lines and business units, and to develop new products for markets with strong potential, the division will deliver the benefits from a massive investment program that will be kept at around 6% of total revenue.

Corporate Finance plays an important co-ordinating role in the integration process between Head Office and the individual subsidiaries. The division has a governance role within the financial environment, both in Iceland and elsewhere. Corporate Finance is responsible for financial strategies, cash management, external reporting and co-ordination of the budgeting process. Management Information Systems – the internal reporting systems of the group – are also managed by the division.

The Össur complete solution

During the course of 2000, Össur assembled some of the most distinguished trademarks and skilled personnel in the industry. Flex-Foot, Mauch, Total Knee, Iceross - all familiar and respected names which represent quality and innovation in the world of prosthetics. The company is committed to producing the very best prosthetic devices, offering cost-effective complete solutions and improving the quality of life for the users of its products. The creation of distinct business units within Össur's prosthetic division, reflecting the four major product lines outlined here, means the company can incorporate new lines into the organization in the future with ease.

Knee Products

With Total Knee's patented, highly effective geometric design and Mauch's expertise in hydraulic knee control systems, Össur now has a trusted range of high performance products to suit all activity levels, which includes:

Mauch GaitMaster

SNS hydraulic unit

S-Type hydraulic unit

Total Knee

- Small Wonder

- Polymer Friction

- Hydraulic

- High Activity

Foot Products

Utilizing the superior strength and flexible properties of carbon fiber, the Flex-Foot name is synonymous with innovation and quality.

Offering unparalleled function and feel for amputees, the prosthetic foot range includes:

Re-Flex VSP

Modular III

Vari-Flex

K2 Sensation

Allurion

Sure-Flex

Low Profile Symes

Flex-Walk

Total Concept

Masterstep

Interface Systems

A unique casting system and the widest range of state-of-the-art silicone sockets offering exceptional suspension, comfort, durability and enhanced skin care, includes:

ICEROSS

- Original

- Comfort

- Sport K4

- Dermo

ICEFLEX

ICEX

ICECAST

Components / Cosmetic Covers

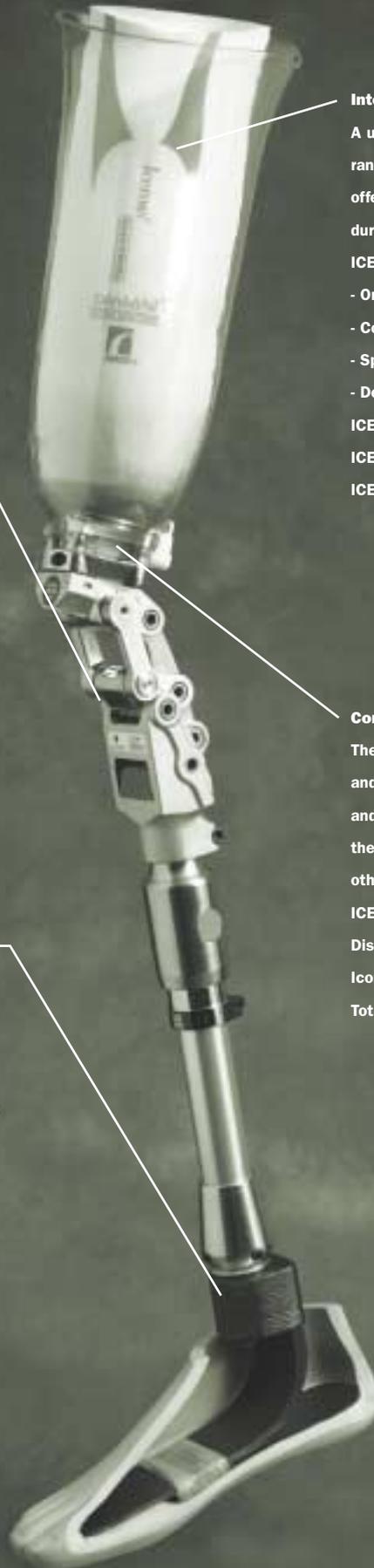
The complete range of top quality locking and suction components, modular adaptors and shock absorbers, designed to enhance the performance of Össur devices and all other types of applications, now includes:

ICELOCK

Distal Cup

Icon shock system

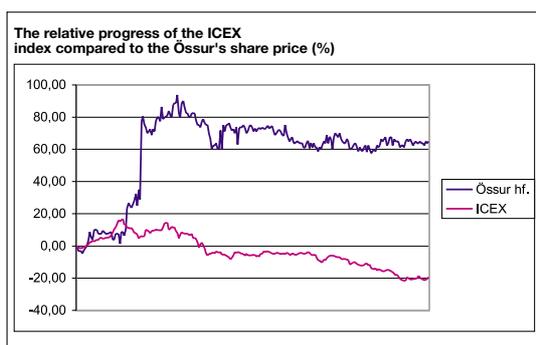
Total Shock



IV. Össur hf. and the Financial Market

Development of Össur hf. Share Price

The price of Össur hf. shares increased by 65% during the year. The share price at the beginning of the year was 40.0 and it increased to 66.0 by year-end. The price of the Company's shares increased considerably when the purchase of Flex-Foot Inc. was finalized on 3. April, 2000. It rose to a maximum of 79.0 on 7. April and remained relatively stable from the time the purchase was announced until the end of the year. The Icelandic stock index, ICEX, declined by approximately 19% during the year.



Capital Stock-Shareholders

The Company's capital stock at the beginning of the year amounted to a nominal value of ISK 211,937,460. It increased by ISK 116,503,540 during the year and had a nominal value of ISK 328,441,000 at year-end.

At the end of the year, shareholders numbered 5,923, an increase of 1,282 from the previous year. The ten largest shareholders were:

The Largest Stockholders

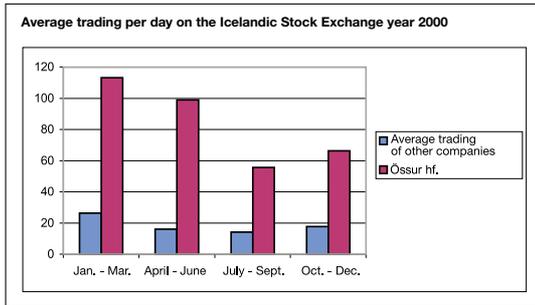
Name	Number of Shares	%
Mallard Holding S.A.	95.414.919,00	29,05
Kaupping hf, fjárfest.verðbréf	25.067.469,00	7,63
Kaupthing Luxembourg S.A.	21.828.961,00	6,65
Kaupping hf	20.735.442,00	6,31
Lífeyrissjóðir Bankastræti 7	7.106.250,00	2,16
Fjárfestingasjóður Búnaðarb. hf	6.408.261,00	1,95
Hlutabréfasjóðurinn Auðlind hf	5.327.867,00	1,62
Kaupthing Global Equity Class	5.238.856,00	1,6
Vik Investment Holding S.a.r.L.	4.698.509,00	1,43
Einingabréf 9.Varasjóðurinn	4.302.703,00	1,31
	196.129.237,00	59,71

The ratio of professional investors at year-end was 46% as opposed to 21% at the beginning of the year.

The Development of Trading on the ISE during the Operational Year 2000

The number of trades in Össur hf. shares on the Iceland Stock Exchange (ISE) was 3,924. Total turnover was ISK 5.164 billion. The average amount of trading was ISK 1.316 million, and the average exchange rate was 65.73.

The number of trades in Össur hf. shares outside the ISE was 3,011, with a total turnover of ISK 14.170 billion. The average amount of trading was ISK 4.076 million, and the average exchange rate outside the ISE was 64.04.



The turnover ratio of Össur shares during the year 2000 was 78%.

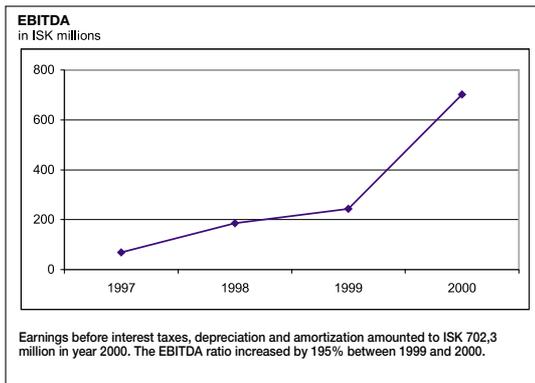
Össur began listing its shares electronically on 13. June 2000, thereby becoming the first company on the ISE to use electronic listing.

Market Value

The Company's assets at year-end 2000 amounted to ISK 21,677,106,000, as opposed to ISK 8,477,498,400 at year-end 1999. These figures represent an increase of 155% during the year.

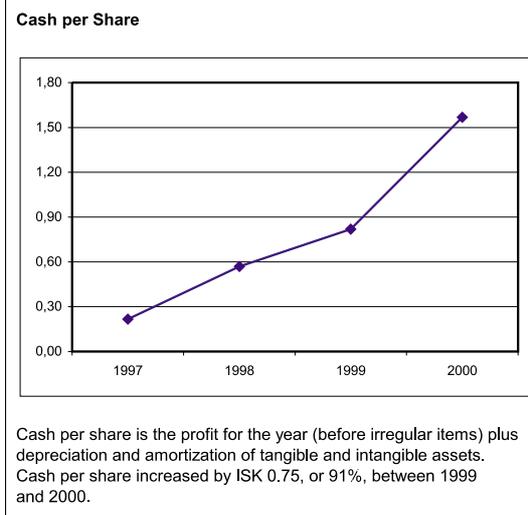
EBITDA

The development of earnings before depreciation has been positive for the past four years and has been constantly increasing. EBITDA amounted to ISK 702.3 million for 2000 versus ISK 238 million for the previous year, an increase of 195%.



Cash per Share

Cash per share (1 share = ISK 1.00) increased 91% during the year. The cash per share amount for 2000 was ISK 1.57, as compared with ISK 0.82 for 1999.



Required Investment Return and Cost of Equity

In the year 2000, return on total capital after taxes was 8.2%, and return on equity was 9.0%. This is a decrease from 22.9% and 44.7% respectively from the previous year. This reduction is explained by the increase of share capital in the amount of ISK 116.5 million that was either allotted to or used by the Company's Board of Directors to finance purchases of shares in foreign entities. These investments had only just begun to return income during the year.

Key figures

Consolidated statement

		2000	1999	1998	1997
Growth					
Net sales in terms of 2000 prices	ISK millions	3.614,5	1.370,8	1.120,6	864,3
Employees (full-time equivalents)	Number	327	122	101	87
Net income before extraordinary exp. (2000 prices)	ISK millions	409,2	146,7	85,8	12,5
Total assets in terms of 2000 year-end prices.....	ISK millions	4.815,3	1.837,1	566,1	495,4
EBITDA.....	ISK millions	702,3	238,0		
Operational performance					
Cash provided by operating activities (2000 prices)	ISK millions	457,2	247,1	87,4	35,8
– as ratio to total debt	%	30,0	67,0	24,5	10,0
– as ratio to income.....		1,1	1,7	1,0	2,9
Working capital from operating activit. (2000 prices)	ISK millions	694,9	198,0	124,2	43,4
– as ratio to long-term debt and stockholders´ equity	%	24,6	19,2	30,9	11,9
– as ratio to investment, current maturities, dividends		0,1	2,7	2,4	0,7
Liquidity and solvency					
Acid-test ratio		1,1	1,5	1,7	1,3
Current ratio.....		1,5	2,2	2,7	2,3
Equity ratio.....	%	44,6	78,6	35,7	23,2
Asset utilization and efficiency					
Net sales pr. employee in terms of 2000 prices ...	ISK millions	11,1	11,2	11,1	9,9
Total assets turnover		1,1	1,1	2,2	1,8
Inventory turnover, raw materials		4,4	5,7	5,9	5,3
Inventory turnover, finished products		8,4	7,0	6,2	6,0
Days´ sales in receivables.....	Days	50	40	39	41
Profitability					
Return on total assets	%	8,2	22,9	22,2	4,6
Return on common equity	%	9,0	44,7	77,3	12,8
Operating profit as ratio to net sales.....	%	16,5	16,1	14,7	5,0
Net income before taxes as ratio to net sales	%	12,9	16,6	12,5	4,0
Net income for the year as ratio to net sales.....	%	11,3	10,7	7,7	1,4
Market					
Year-end market value.....	ISK millions	21.677,1	8.477		
Price/earnings ratio		53,0	60,8		
Price/book ratio.....		10,1	6,1		
Number of shares.....	Millions	328,4	211,9		
Profit per share	ISK millions	1,25	0,66		

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



JAMIE GILLESPIE

Jamie Gillespie is a talented sportsman whose leg was amputated after a motorbike accident whilst an engineer in the armed forces in 1994. Previously a member of the British paralympic athletics squad, Jamie is now heavily involved with sailing and is training hard for the legendary Fastnet yacht race in August 2001. He qualified as a ski instructor in Austria during 2000, and will be instructing new amputees this year as part of an amputee ski group.

Jamie is a qualified prosthetist, working in the UK, and uses ICEROSS Sport K4 and Flex-Foot for unrivalled performance.

(photo - Mark Lloyd / Daily Mail)

V. Market Development and Operations

Far-reaching changes are taking place in many of the world's social, political and economic structures. The demands and expectations of services and products in general are increasingly higher, and the healthcare industry is no exception to this trend.

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 a feature 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. New technologies and their applications enable both radical and evolutionary changes to the design and production of prosthetics, helping to improve people's quality of life.

With variations relating to the prosperity of any given market area, the largest single health market is the

United States, where total turnover is estimated at 50% of the world's combined expenditures. Around 70% of all health expenditure is generated in the USA, UK, Germany and Japan – Össur largest markets.

In today's highly fractionalized prosthetics industry, competition is extensive and is characterized by innovation and rapid technological development. Competitiveness is based on a number of factors:

- efficiency of the technology
- design and functionality of products
- accessibility of products
- service and education for customers
- the influence of prosthetic experts and the healthcare community.

Össur's strategy and acquisitions over the course of last year have put the company on a very strong competitive footing, consolidating a range of highly innovative products and expertise. It is the only prosthetic company to have been listed on a public stock exchange and in May 2000 the secondary offering to existing Össur shareholders raised ISK 3.780 million, financing the acquisition of Flex-Foot Inc. In December 2000 shareholders agreed an increase in share capital, primarily to acquire the US company Century XXII Innovations Inc.

Össur is actively pursuing the development of complete prosthetic solutions, integrating more products into its manufacturing portfolio and exploring the closely related orthotics market. The company dedicates substantial resources to its R&D function, ISK 277 million in 2000, a fact which is reflected in



its sales. Around 50% of total sales in 2000 were attributable to new products, developed only in the last three years. This is in comparison to a mere 20% in 1997, when the majority of sales derived from products developed more than three years previously. Product accessibility and customer service factors were advanced in 2000 with the introduction of direct selling. Fourteen sales representatives now sell the company's products direct to customers in North America and the establishment of a direct selling operation throughout Europe is underway. Improving the distribution infrastructure and strengthening customer relations will continue to be a priority for Össur.

Operations

Significant effort was invested in the acquisition program during the year. However, operations at all sites continued unabated. Modern telecommunication facilities such as intranets and videoconferencing should help to improve effectiveness.

The company's biggest product launch was without doubt the ICEROSS DERMO liner, which takes skin care to new heights with its highly effective silicone and Aloe Vera mix. The Dermo is being very successfully targeted at users of competitors' liners. The ICEROSS Sport is a new high value liner, launched in 2000 and aimed exclusively at highly active amputees, athletes in particular. Sales of the Allurion foot and K2 products launched in late 1999 showed a very positive growth rate during the year and established a strong foothold in the market. Sustained research and development work will result in a further six product launches in the first six months of 2001. The company now has 54 closely guarded patents (and approximately 20 pending).

Operational developments by location:

North America

Aliso Viejo, California, is the principal site of Flex-Foot operations. Management of Össur's new Prosthetic Division, which includes the manufacturing and marketing & sales functions, is also based at this location following Össur's reorganization (see organizational chart, page 22).

Last year Flex-Foot launched three new categories of its lower profile Re-Flex VSP foot module (catering for higher weight and higher activity users) as well as a range of new components, foot covers and the K2 Pylon – a new attachment for the K2 foot kit. Recent products heavily promoted during the course of last year include the Allurion – Flex-Foot's newest prosthetic foot for amputees with long residual limbs or knee units, Icon – the new vertical shock absorption unit, and the K2 Sensation foot module. Intensive research and new product development characterized last year with a number of important product launches scheduled for 2001.

'Operation Direct', instigated in the latter half of 2000, is a large-scale operation targeting customers and inviting them to order Össur products direct from the company. The operation has involved intensive training for sales representatives who are broadening their portfolio of products and now selling total solutions to prosthetists and prosthetic facilities. Backed up with exceptional customer care programs, technical services and delivery guarantees, Operation Direct forms part of Össur's strategy to exert direct control of sales in all major markets.



Developing the Eindhoven office was a priority for 2000, extending the sales and distribution capacity to take account of the Össur inventory. Preparing for and implementing integration, including integration of Össur's original US sales office, has also been a major feature of the year's work.

Jackson, Michigan, is the location of recently acquired Century XXII Innovations Inc. Major activities during 2000 were the expansion of the manufacturing facility in nearby Albion, the continued roll out of Total Concept - a simple heel height adjustment unit - and intensive development work on a new prosthetic knee designed to compete with products in the lower price bracket.

Össur has taken over the daily management of the company, including sales and marketing. The distribution side of the business will move to California whereas the engineering and assembly functions will remain in Albion, Michigan. The Jackson offices will be closed early in 2001.

Dayton, Ohio, is the manufacturing base for Mauch knees. As part of its goal to improve quality, cost and delivery, the Production unit expanded its floor space in 2000, rearranged its machine shop and relocated and restructured its entire assembly operation. Process improvement teams were set up to review all processes and eliminate production inefficiencies. During the year a new, solid pin was introduced to the GaitMaster knee frame, which increases the weight range of users and broadens its market potential.

Iceland

Össur's Head Office is located in Reykjavik, Iceland. A number of staff have transferred to other sites and new positions, reflecting the wider international focus of the company and its new organizational structure. In June, the Baltimore sales office merged with Flex-Foot's US operations and relocated to Aliso Viejo.

Last year Össur launched the ICEROSS Sport K4, a suspension liner aimed at active people and featuring the latest in silicone and suspension technology, plus a new range of locks. The revolutionary ICEROSS DERMO liner was launched - a silicone liner combining the healing and moisturizing properties of Aloe Vera with the strength and durability of DERMOGEL silicone. A number of new products and product enhancements are on schedule for 2001 and Business Development continues to investigate potential new growth areas for the company. Össur led a successful bid in 2000, with a number of international partners, for a European Union research grant worth \$1.5 million. Funding is for the research and development of a 'sensor socket' which aims to detect information from a residual limb and transmit it directly to a hospital or rehabilitation center.

Production capacity in Reykjavik has enlarged steadily to meet increased demand and the introduction of new products. Totally new manufacturing equipment was installed in 2000 for the production of new liners, including the ICEROSS DERMO. In conjunction with the new liners, the involvement of the manufacturing process in material technology and development has increased. In order to improve general quality standards, levels of hygiene throughout manufacturing have been strengthened. To meet further expansion requirements, 1700 m² of floor space will be added to the manufacturing facilities in 2001. Marketing and sales staff have refocused their work in accordance with the new organizational structure, establishing direct selling and marketing of the complete prosthetic solution, based on the new product range of the company.

As part of the move away from the service sector, Össur co-founded a new healthcare business in December that incorporates its retail operation in Iceland. Both Össur and its partner in the project, Ó. Johnson & Kaaber, have a 50% share in the new company.





UK

The focus for the UK office was continued growth for existing Össur products and the successful launch of all new products. The UK Flex-Foot Sales Manager was incorporated into the Manchester-based team which continued to provide exceptional customer care to the UK market during 2000. It has been decided that UK operations will be merged in 2001 with the European Sales office, Eindhoven, for reasons of operational and cost-efficiency improvements.

The Netherlands

Originally planned as Flex-Foot's European sales office, work in Eindhoven has focused on establishing the office and warehouse, hiring staff and extending the direct sales operation across Europe. Preparations for 2001 include the expansion of the sales team in Germany, the largest European market, and development of a specialized technical service department to service the entire mid-European market. Almost half of Össur's sales were achieved in this market in 1999. After Germany, the other major markets in Europe are Scandinavia, the UK, France and Italy.

Sweden

Pi Medical moved all warehouse, production and office facilities in August, to a smaller and more effective location in Uppsala. During the latter half of the year operations were merged with those of

Karlsson & Bergström and the two companies became Össur Nordic AB. Warehouse, distribution and manufacturing is now managed from Uppsala, leaving a sales office in Helsingborg.

Structure and organizational chart

Alongside the four business acquisitions by Össur last year, considerable effort has been put into integrating the companies involved and establishing an effective structure for future operations. The new organizational chart (effective December 2000) has been designed with the involvement of a wide range of managers to support the development of a single, dynamic and fully integrated international company. Key management positions have been filled with experienced managers, irrespective of nationality or location.

The structure features three core divisions:

- The Prosthetic Division
- R & D / Business Development
- Corporate Finance

In addition to immediate plans, the structure has also been designed to accommodate future growth and expansion into the orthotic sector. The creation of distinct business units within the Prosthetic Division for each of Össur's product lines – knee products, foot products, interface systems (sockets) and components – means that the company can incorporate new product lines into its organization with ease. The focus of the business units is a

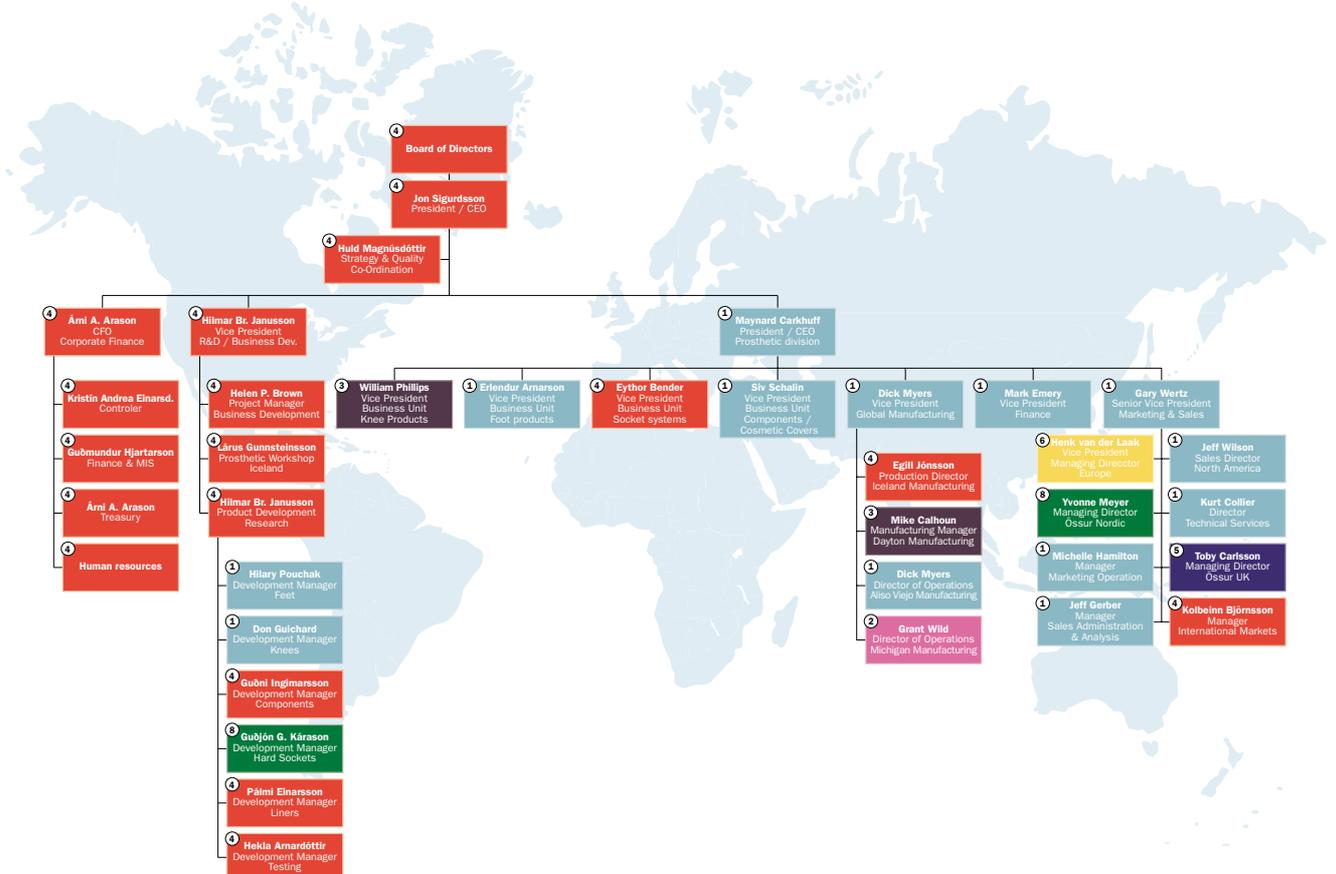
combination of product development and marketing. Acting as the link between R&D and sales, the business units and their products will compete for “shelf space“ with sales representatives, increasing their competitiveness.

Manufacturing continues at respective sites, mutually benefiting from techniques, processes and materials employed by the different companies. Marketing and Sales teams now cover North America, Europe and International Markets which include Japan. Össur Nordic is responsible for sales in the Nordic and Baltic countries and Ossur UK will be integrated within the European operation later in 2001. The company is increasing distribution of its products through direct selling and improving its links with distributors in other areas. Technical Services provide expert backup and technical advice in the form of a telephone service, face-to-face training and a wide range of publications.

The combined R&D capacity now within Össur forms an exciting platform for future developments in the prosthetics industry. Össur already commits record

investment to R&D and this will be maintained at about 6% of total revenue. New business development has a strong and visible place within the division. The prosthetic workshop puts together artificial limbs and various orthotic products for the Icelandic market, channeling feedback from customers into the division. The combination of innovative, highly skilled staff and the creative application of Össur’s core technologies will ensure the company maintains its leading position in the field of R&D.

Corporate Finance co-ordinate all financial matters, information flow and human resource management issues that are common to the companies now within Össur. The division has overall responsibility for company finances, asset management and management information systems.



VI. Risk Management and Investments

Return on Liquid Assets

At the beginning of the year the company had approximately ISK 1.388 million in liquid assets, defined as long-term investment funds and liquid funds. The investment policy remained the same as in the previous year, that is to keep risk to a minimum and be in a position to liquidate assets quickly. Return on assets was through return agreements, bank and company drafts, housing bonds, investment funds and domestic and foreign stock. Investments were made primarily (90%) in ISK and benefited from high interest levels in Iceland during the peak growth period on the securities markets from the start of the year until April. The remaining 10% of investments were made in SEK and USD. Around ISK 1.000 million of the long-term securities were used for the acquisition of Flex-Foot. The remainder of securities plus operational net cash-flows for the year totalled around 760 million at year-end. Total interest income amounted to ISK 84 million, giving an average return on liquid assets of approximately 13,5%.

Exchange rate differences had a substantial effect on profit and loss during 2000. The US dollar gained 5,5% on the Icelandic Krona in the period from February until April, affecting the price paid for future USD cash flows out of Flex-Foot. Currency loss increased with the continued strength of the dollar, but currency hedging and a weaker dollar toward the end of the year resulted in a final figure of approximately ISK 224 million. General price level changes account for a loss of ISK 29 million

contributing to an overall net interest expenses of ISK 131 million.

Össur USA Holding

Össur have set up a holding company for North American operations in Delaware, USA. Össur USA, Flex-Foot Inc., Century XXII Innovations Inc., and Mauch Inc. are part of the consolidated statement of the Össur Holding USA.

Exchange risk

The currency basket of the company has changed significantly since last year. From being divided equally between US dollars and the Euro, the balance is now more heavily weighted in favour of the US dollar. Today, 67% of company revenues are in US



dollars, only 20% in Euros, 2% in Sterling, and 8% Swedish Krona. The relationship between cost of sales and operational expenses on one hand and the revenue from sales on the other, is relatively higher in US dollars than in Euros, meaning that the company is more EBIDTA dependent in EUR than in USD. The balance may change in 2001 as the European sales and distribution office in Eindhoven becomes more established.

During the year 2000, part of the foreign currency cash-flow into Iceland was sold on a forward basis. The general policy of the company is not to have an opinion on currency development but to minimize

multi-
s if

applicable.

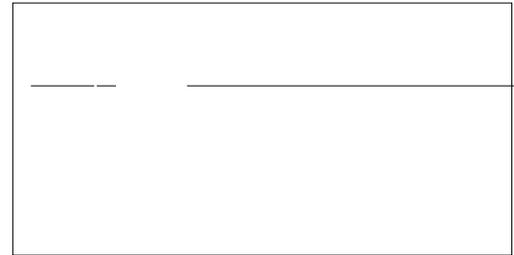
Research and Development

One of the declared objectives of the R&D division is to maintain the growth of the company by bringing out new products and technologies in prosthetic and related areas. In the year 2000, R&D facilities received a new dimension as the R&D departments of Flex-Foot and Century merged with that of Össur. The R&D department at Össur has previously specialized in liner and socket technology solutions. Efforts to develop a new prosthetic foot within that department were halted with the acquisition of Flex-Foot. The latter's R&D team has been at the forefront of prosthetic foot and component design and engineering for many years. At Century XXII Innovations, significant development work has been carried out in the field of knee joints, together with other components and prosthetic feet. The total R&D budget of these three companies for the whole of the year 2000 is estimated to have been around ISK 450 million. Össur will benefit from the obvious synergies created through the combining of the R&D functions. With the introduction of a new organizational structure for the company, a new R&D division was founded, encompassing the best of each of the previous individual departments and strengthening the focus on new business development. Today the company's R&D division has a staff of around 35, located in Reykjavik, Iceland, Aliso Viejo, California and Albion, Michigan. The newly established division will have a budget of ISK 415 million or 6% of estimated revenues, mostly reserved for future developments in prosthetics and orthotics. It is now the second largest

R&D department in the industry, possibly the first in terms of personnel and budgets.

A number of new products were launched by the companies last year (see chapter V. Market Development and Operations). The product age portfolio of the company has changed significantly in the last three years. Around 50% of total sales in 2000 were attributable to new products, developed only in the last three years. This is in comparison to a mere 20% in 1997, when the majority of sales derived from products developed more than three years previously.

Product age by sales
in USD million



Sales revenue increased between 1997 and 2000 from USD 7.7 million to USD 43 million. In 2001 revenue is estimated to reach USD 74 million. The sale of products developed in the last three years has increased from 20% to 50% of total sales since

Össur was awarded a European Union research grant in December 2000, worth USD 1.5 million / ISK 130 million, for the development of a 'sensor socket'. The company has lined up a number of companies and research partners that will participate in the project which is scheduled for completion in 2002.

Future Prospects

The company predicts an increase in revenue growth two to three times that of the general prosthetic market. Against a backdrop of market growth estimated at 6 - 8% in the prosthetic field, and approximately 12% in the medical device market, the company should be able to generate 18 - 20 % organic growth in the coming years.

A steady increase in the number of people living longer will support this growth rate, as will the constant increase of diabetes. Diabetes, together with vascular disease, is the most common reason for amputation in the West and the incidence of diabetes will have increased by over 100% in the year 2025.

Growth will be further supported by a number of new products. As a result of intensive development work across all product lines last year, six new products are scheduled to be launched in the first half of 2001. Two new liners will be introduced – one for transfemoral (above knee) applications and one for



upper extremities. A new multi-axial foot, TALUX, will be introduced in spring 2001 and in the autumn, a new single axis knee joint together with a revolutionary electronic knee. The knee has been developed with the Massachusetts Institute of Technology (MIT) in Boston. An intelligent knee, it utilizes new magnetorheological technology to adapt movement to the user's walking pace.

One of the company's main objectives is to strengthen its sales and distribution system, aiming for direct control of sales and marketing in all major

markets. The direct sales approach will be accelerated in North America and a similar system built up further in Europe.

Company revenues for the year 2001 are estimated at USD 74 million after taxes or ISK 6.100 million, and profit is estimated at USD 8,5 million or ISK 700 million.



SHEA COWART

Shea Cowart was only five years old when she had to have both her legs amputated below the knee after contracting a rare and deadly form of bacterial meningitis. She recovered, against the odds, and went on to be an active sports player at school. In 1999, Shea's prosthetist encouraged her to enter a sprint competition and she has not looked back since.

Fitted with Flex-Foot sprint prostheses in the Paralympic Games in Sydney in 2000, Shea tore past unilateral and bilateral amputees to win gold, setting a new world record in the women's 100m final (T44 class).

VII. Financial Statements

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 Össur hf. that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operational results for the year, and financial developments during the year 2000.

Consolidated income for the Össur group amounted to ISK 3.615 million in 2000 compared to ISK 1.303 million for the preceding year. There was a 177% increase in turnover compared to the previous year. By the end of the year, an average of 327 employees were working for the Group, 120 of whom were employed by the Parent Company in Iceland. In 1999 an average of 108 employees worked for the Parent Company and 122 for the Group. During the year, the Company purchased all the shares in the following manufacturing and distributing companies:

- Flex-Foot Inc. and subsidiaries in Aliso Viejo, California, USA
- J. Bergström Förvaltnings AB and subsidiaries in Helsingborg, Sweden
- Mega Hali Med AB and subsidiaries in Uppsala, Sweden
- Century XXII Innovations Inc. and subsidiaries in Jackson, Mississippi, USA.

Included in the Össur Group are the operating results of Flex-Foot and subsidiaries for the last nine months of 2000, the operating results of J. Bergström Förvaltnings and subsidiaries and Mega Hali Med and subsidiaries for the last two months of the year, and the operating results of Century XII Innovations and its subsidiary for one month. All costs relating to the purchase of these companies have been depreciated through the Company's goodwill. During the year the Company increased its capital stock by a nominal value of ISK 116.5 million. Issued and paid-in capital at year-end amounted to ISK 328.4 million. The listed share price on the stock exchange on December 31, 2000, was ISK 66.0. The Company's assets totaled ISK. 21.7 billion at year-end.

The Group's operating loss was ISK 6.679 million. The Board proposes that no dividend be paid to shareholders in 2001. Changes in stockholders' equity are further explained in notes to the Financial Statements.

Össur's revised operational plan, published at the shareholders' meeting held on December 4, 2000, was based on a consolidated income of ISK 3.570 million. Profit after taxes, but before extraordinary items, was estimated at ISK 400 million. According to the Financial Statements of the Group for the year 2000, the consolidated income amounted to ISK 3.615 million. Profit after taxes, but before extraordinary items, amounted to ISK 409 million. At year-end shareholders in Össur hf. numbered 5,923 as opposed to 4,641 at the beginning of the year. One shareholder, Mallard Holding SA, holds more than 10% of the Company's capital stock. Mallard Holding owned a 29.05% share in the Company at year-end.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of the Össur Group for the year 2000 with their signatures.

Reykjavik, February 9, 2001

Board of Directors:



Pétur Guðmundarson
Chairman of the Board



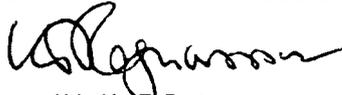
Össur Kristinsson



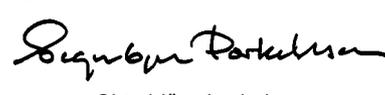
Gunnar Stefánsson



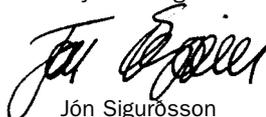
Þorkell Sigurlaugsson



Kristján T. Ragnarsson



Sigurbjörn Þorkelsson



Jón Sigurðsson
President and CEO

Auditors' Report

To the Board of Directors and Shareholders of Össur hf.

We have audited the accompanying Consolidated Balance Sheets of Össur hf. and subsidiaries as of December 31, 2000 and 1999, the related Consolidated Statements of Income and Cash Flows for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. The Financial Statements of foreign subsidiaries of Össur hf. have been audited by other auditors and they have all expressed an unqualified opinion on these Financial Statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements. 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 Statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our own audit and the unqualified auditors' reports on the Financial Statements of the foreign subsidiaries of Össur hf., the Consolidated Financial Statements give a true and fair view of the financial position of the Össur hf. and subsidiaries as of December 31, 2000 and 1999, of the results of their operations and their cash flows for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Reykjavik, February 9, 2001

Deloitte & Touche



Árni Tómasson

State Authorized Public Accountant



Sif Einarsdóttir

State Authorized Public Accountant

Consolidated Statements of Income for the Years 2000 and 1999

	Note	2000	1999
Operating revenues:			
Net sales and other income	23	3.614,5	1.302,8
		3.614,5	1.302,8
Operating expenses:			
Cost of goods sold.....		1.407,0	460,5
Sales and marketing expenses		555,1	181,9
Research and development expenses		276,6	88,5
General and administrative expenses		779,5	362,5
		3.018,3	1.093,5
Operating profit		596,3	209,3
Net interest:			
Interest income (expenses)	24	(130,9)	6,4
Income before taxes		465,3	215,7
Taxes:			
Income tax	18	(56,2)	(73,8)
Net worth tax		0,0	(2,5)
Net income before extraordinary expenses		409,2	139,4
Extraordinary expenses:			
Goodwill charged to cost	17	(7.087,7)	0,0
Net income/(loss) for the year		(6.678,5)	139,4

All amounts are in millions of ISK

Operating revenues

The operating revenues for the year totalled ISK 3.614 million, an increase of 177% on the previous year. The consolidated revenues include the revenues of Flex-Foot Inc. for nine months, Karlsson & Bergström and Pi Medical for two months and Century XXII Innovations Inc. for one month. The previous Össur product line accounts for ISK 1.420 million, which equals internal growth of 25% between years. The domestic part of the consolidated results accounts for 5,5% of total revenues.

Operating Expenses

The operating expenses amounted to ISK 3.018 million or 83% in relation to revenues, as opposed to 84% in 1999, leaving an increase of operating profit from 16% to 16,5%. The increased CoGS (Cost of Goods Sold), from 35% to 39% of revenues, can be explained by the lower margin of the prosthetic feet and knee business compared to the socket business. Prefabricated materials are used in the prosthetic feet and knee groups whereas a bigger part of the socket group's value creation originates within the company. The Sales and Marketing cost has increased from 14% in 1999 to 15,3% last year as a result of the direct sales approach in the North American and European markets. The increased R&D cost of the company, up to 8% from 7% the previous year, is related to the acquisitions. Two new R&D departments were taken over and have been merged into one unit with a budgeted R&D cost of 6 - 7% of revenues in 2001. The General Administration cost is declining, down from 28 to 22% of revenues, a saving of approximately ISK 220 million as an effect of the synergy created from the acquisitions in the year 2000.

Operating profits before financial costs amounted to ISK 596 million, or 16.5% of revenues.

Financial Items

Interest income was ISK 84 million, while financial items and currency losses amounted to ISK 215 million leaving financial expenses of ISK 131 million. The biggest factor in the currency loss is the negative development of the American Dollar against the Icelandic Krona, which affects the book value of USD 14 million worth of debt relating to the Flex-Foot acquisition. Earnings from regular operations before taxes were ISK 465 million compared to ISK 139 million in 1999.

Taxes

The income and net worth tax of the corporation was ISK 56 million, or 12% of pre-tax income, mainly because of acquisition related tax savings in the United States. The accrued tax saving of ISK 1.751 will be offset against taxes over the next 14 years. The profits before irregular items have tripled to ISK 409 million, compared to ISK 139 million in 1999.

Extraordinary Items

Extraordinary items comprise depreciation of goodwill in the amount of ISK 7.088 million as a result of the acquisition of Flex-Foot Inc., Karlsson & Bergström AB, Pi Medical AB, and Century XXII Innovations Inc.

Net earnings/losses

Losses of Össur hf. for the year 2000 after extraordinary items amount to ISK 6.679 million.

Consolidated Balance Sheets**Assets****Fixed assets:****Intangible assets**

	Notes	Dec. 31, 2000	Dec. 31, 1999
Goodwill/deferred tax asset	4	1.751,8	0,0
Other intangible assets	5	32,9	18,1
		1.784,7	18,1

Operating fixed assets

	Notes	Dec. 31, 2000	Dec. 31, 1999
Buildings and sites	6	233,1	14,2
Other operating fixed assets		437,7	108,1
		670,9	122,3

Investments

Long-term securities	8	158,5	1.148,2
		158,5	1.148,2

Total Fixed assets		2.614,1	1.288,6
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Current assets:**Inventories**

	Notes	Dec. 31, 2000	Dec. 31, 1999
Raw materials and work in process	9	258,6	50,7
Finished products		354,3	95,0
		612,9	145,7

Short-term receivables

Accounts receivable	10	875,5	163,4
Other receivables	11	109,4	40,9
		984,9	204,3

Cash and cash equivalents

Marketable securities	12	265,2	33,8
Cash		338,1	91,0
		603,4	124,8

Total current assets		2.201,2	474,8
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Total assets		4.815,3	1.763,5
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December 31, 2000 and 1999**Liabilities and Equity**

	Notes	Dec. 31, 2000	Dec. 31, 1999
Stockholders' equity:	13		
Common stock		328,4	211,9
Additional paid-in capital		7.660,6	984,9
Statutory reserve		15,2	15,2
Other equity		(5.858,6)	174,7
Total stockholders' equity		2.145,6	1.386,8
Tax liabilities:			
Deferred income tax		0,0	0,8
Liabilities:			
Long-term liabilities	15		
Credit institutions		1.293,7	90,4
Long-term notes		91,2	89,1
Other long-term liabilities	16	557,4	0,0
		1.942,3	179,5
Current maturities of long-term debts	15	(770,3)	(17,3)
Total long-term liabilities		1.172,0	162,2
Current liabilities			
Current maturities, as above	15	770,3	17,3
Accounts payable.....		290,1	63,4
Accrued taxes payable	18	11,2	74,1
Other current liabilities.....		181,9	20,4
Accrued salaries, and other expenses payable..		244,3	38,4
Total current liabilities		1.497,7	213,7
Total liabilities		2.669,7	376,0
Total liabilities and stockholders' equity		4.815,3	1.763,5

All amounts are in millions of ISK

Consolidated Statements of Cash Flows for the Years 2000 and 1999

	Notes	2000	1999
Cash flows from operating activities:			
Net income/(loss) for the year		(6.678,5)	139,4
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,6	106,1	34,1
Other non-cash items	27	123,5	20,1
Deferred income tax.....		56,2	(5,5)
Goodwill charged to cost	17	7.087,7	0,0
Working capital from operating activities		694,9	188,2
Changes in operating assets and liabilities:			
Inventories, increase		(33,5)	(5,6)
Accounts receivable, increase.....		(200,1)	(27,6)
Current liabilities, (increase), decrease		(4,0)	79,8
Net cash provided by operating activities		457,2	234,8
Cash flows from investing activities:			
Purchase price of fixed assets		(136,5)	(50,9)
Sales price of fixed assets		25,0	8,9
Share investments		(5.795,5)	0,0
Long-term securities and other receivables		953,6	(1.141,5)
Net cash used in investing activities		(4.953,4)	(1.183,5)
Cash flows from financing activities:			
Borrowings of long-term debt		1.162,0	0,0
Maturities on long-term debt		(20,5)	(27,4)
Paid-in capital		3.779,8	1.017,6
Net cash provided by financing activities		4.921,3	990,3
Net increase in cash and cash equivalents		425,1	41,6
Cash - from purchased subsidiaries		53,5	0,0
Cash and cash equivalents at the beginning of the year		124,8	83,2
Cash and cash equivalents at the end of the year		603,4	124,8
Notes: Statement of cash flows.....	27		

All amounts are in millions of ISK

Assets

Fixed assets increased by ISK 1.325 million, amounting to ISK 2.614 million at year-end. The increase is primarily a result of capitalized goodwill in the amount of ISK 1.752 million, which will be written off over the next 14 years. Permanent operating assets increased from ISK 122 million in 1999, to ISK 671 million at year-end 2000. The increase of fixed assets is related to the acquisitions during the year 2000.

Current assets increased by ISK 1.726 million over the year and amounted to ISK 2.201 million at year-end. Receivables and inventory increased as a result of the acquisition in excess of the proportional increase in turnover, as the merger with Century XXII Innovations Inc. and the two Swedish companies took place in the final quarter of the year 2000. Total assets at year-end amounted to ISK 4.815 million, an increase of ISK 3.052 million on 1999.

Stockholders Equity

The capital stock of the company was increased over the year by a total of ISK 116,5 million, bringing it to ISK 328,4 million at year-end. In a secondary offering in May, 60 million shares were offered with the purpose of financing the acquisition of Flex-Foot Inc. The company's shareholders held pre-emptive rights in an over-subscribed offering which produced a net cash-flow of ISK 3.780.000 to the issuer. The acquisitions of Century XXII, Karlsson & Bergström and Pi Medical were all-stock transactions. Stockholders Equity amounted to ISK 2.145,6 million at year-end.

Liabilities

The company's long-term debts increased by ISK 2.294 million over the year 2000. The increase is due

partly to USD 14 million of debt relating to the Flex-Foot acquisition and partly to Earn-Out related liabilities toward the former owners of Flex-Foot Inc., Karlsson & Bergström AB, Pi Medical AB and Century XXII Innovations Inc.

Cash from Operations

Working capital from operating activities at year-end almost quadrupled to ISK 695 million, from ISK 188 million at year-end 1999. The individual items affecting the increase of working capital include the depreciation of ISK 106 million, accrued taxes of ISK 56 million, expensed goodwill write-off in the amount of ISK 7.088 million and other calculated items that amounted to ISK 123 million. The latter is comprised of negative foreign currency course adjustments of ISK 135 million, net price level adjustments of ISK (9,0) million and profits of asset sales ISK (2,0).

Cash from operations increased by 95% from the previous year - from ISK 235 million to 457 million. The main factors affecting the cash were an increase in supplies by ISK 33 million and an increase of short-term claims of ISK 200 million as a result of the acquisitions.

Fixed assets were purchased for ISK 136 million, including mostly production supplies, fixtures and computer hardware and software. Fixed assets were sold for ISK 25 million; a real estate of Össur hf. in Reykjavík. Investments in the acquired companies were ISK 5.795 million. Investment activities thus amounted to a total of ISK 4.953 million during the year, whereas cash-flow from financing activities amounted to a total of ISK of 4.921 million. The cash-flow from financing activities includes paid-in capital of ISK 3.780 million and new debts of ISK 1.162 million.

Notes to the Financial Statements

Operations

Össur hf. designs, manufactures and sells prosthetics solutions. The Company's main products are sockets, prosthetic feet, prosthetic knees and various components used in the manufacturing of prosthetic limbs. The Company's main markets are North America, Western Europe and Japan. In addition to the Parent Company in Iceland, the Company operates in the USA, Sweden, the Netherlands and the UK. The biggest portion of the manufacturing is performed by Flex-Foot, Inc., in Aliso Viejo, California where assembly and distribution of the Company's products to prosthetics workshops and distributors all over the world takes place. The Company's other locations in the USA are Mauch, Inc., located in Daytona, Ohio, where artificial knees are manufactured, and Century XII Innovation, Inc. in Albion, Michigan, where artificial knees are designed and manufactured. Two companies are operated in Sweden selling and distributing the Company's products in in Scandinavia and Baltic countries. One of the companies also manufactures and sells products for the so-called auxiliary aids industry. In Iceland the Company operates a prosthetics workshop and a prosthetics store, as well as manufacturing sockets and components for export.

Summary of Accounting Policies

- The Financial Statements of the Össur Group have been prepared in accordance with the Act on Financial Statements and generally accepted auditing standards in Iceland. They have been prepared, for the most part, in accordance with the same accounting principles as for the preceding year.

The Financial Statements of the Icelandic companies within the Group have been prepared using historical cost accounting, adjusted for the effects of general price level changes. Operating results are presented at the average price level and amounts in the Balance Sheet at the year-end price level. The adjustment is based on a 4.18% increase in the Official Consumer Price Index during the year. The net book value of fixed assets and intangible assets has been revalued by restating the cost and depreciation to the end of the year 2000. Fixed assets and intangible assets added or sold during the year have been revalued based on term 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, have been calculated and entered as income amounting to ISK 9 million. Revaluation of fixed assets and the calculated inflation adjustment have been

The effects of the aforementioned companies on the operations and financial position of the Group are specified as follows in millions of ISK:

	Turnover	Assets
The Flex-Foot Group, nine months of operations.....	2.323,5	1.518,2
The Nordic Group, two months of operations	127,1	337,8
The Century Group, one month of operations.....	65,5	333,3
	2.516,1	2.189,3

In addition to the assets of the companies at year-end 2000, their purchase price in excess of the book value of their Stockholders' equity at the date of purchase is in part recorded as goodwill and in part amortized under the item "Extraordinary Expenses" in the Statement of Income. Reference is made to Notes 4 and 17 in this regard.

The Group

- The Consolidated Financial Statements of the Össur Group pertain to the following subsidiaries:

	Ownership
J. Bergström Förvaltnings AB	100%
Karlsson & Bergström AB	100%
Karlsson & Bergström AS	100%
Mega Hali Med AB	100%
PI Medical AB	100%
PI Medical ApS	100%
PI Protesindustri AB	100%
Protese Industri Medical AS	100%
Össur Holdings Inc.	100%
Century XXII Innovations Inc.	100%
Century XXII Engineering Inc.	100%
Flex-Foot Inc.	100%
Mauch Inc.	100%
Össur USA Inc.	100%
Össur Holding SARL	100%
OR Capital Inc.	100%
Össur stöðtaeki hf.	90%
Össur UK Ltd	100%

posted to the revaluation reserve account in the Balance Sheet under Stockholders' Equity. Monetary assets and liabilities indexed or denominated in foreign currencies are presented at year-end price level or at the year-end exchange rate.

The Financial Statements of other companies within the Group have been prepared using historical cost accounting. Operational items are presented in Icelandic currency (ISK) at the average price level for the period, and Balance Sheet items are presented in ISK at the year-end exchange rate.

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

Comparison To The Previous Year

- Comparative figures from the previous year have not been adjusted for the effects of general price level changes. Furthermore, considerable changes have occurred in the operation of the Company because of the purchase of other companies. The main changes and their effects on the Financial Statements are specified below:

– In April 2000 Össur purchased Flex-Foot Inc. and its subsidiary, Mauch Inc. These companies specialize mainly in the manufacture and sale of prosthetic feet and knees. Amounts from the operations of the Flex-Foot Group for the period April to December 2000, as well as assets and liabilities at year-end, have been entered into the Consolidated Financial Statements.

– At the end of October 2000 Össur purchased the companies Mega Hali Med AB and J. Bergström Förvaltnings AB and their subsidiaries. These companies sell prosthetics in Scandinavia. Amounts from the companies' operations for the period November to December 2000, as well as assets and liabilities at year-end, have been entered into the Consolidated Financial Statements.

– At the end of November 2000 Össur purchased Century XXII Innovations Inc. and its subsidiary, Century XXII Engineering Inc. These companies specialize mainly in the manufacture and sale of prosthetic knees. Amounts from the operations of the Century Group for the month of December 2000, as well as assets and liabilities at year-end, have been entered into the Consolidated Financial Statements.

During the year Össur hf. purchased shares in a number of companies. Where the purchase price was paid by issuing new share capital, the basis is the market value at the date of purchase. In some instances the purchase price was contingent upon performance. The Group believes that it is probable that the conditions will be met; thus the purchase price has been increased correspondingly and the corresponding amount charged. Reference is made to Note 16 in this regard. The purchase price of individual companies in 2000 is specified as follows in millions of ISK:

J. Bergström Förvaltnings AB and subsidiaries	250,6
Mega Hali Med AB and subsidiaries	190,5
Flex-Foot Inc. and subsidiaries	6.100,3
Century XII Innovations Inc. and subsidiary	2.900,5
	9.441,9

The Consolidated Financial Statements have been prepared in conformity with the cost method of accounting. When ownership in subsidiaries is less than 100%, the minority interest in stockholders' equity and performance is written up. The minority interest in Össur stöðtaeki hf. is minimal and is not recorded separately in the Financial Statements.

One of the purposes of Consolidated Financial Statements 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 the calculated income taxes of the Group adjusted accordingly.

Intangible Assets

4. Goodwill/deferred tax asset are explained, on the one hand, by taxable benefits relating to the purchase of shares in other companies in excess of the recorded book value of their stockholders' equity and, on the other hand, by calculated tax credit due to operational loss. Tax liabilities of some of the subsidiaries are deducted from the calculated tax credit.

The amount is further specified as follows in millions of ISK:

Taxable benefits in relation to the purchase of shares in other companies	1,628.6
Calculated tax credit because of carry-forward loss	134.2
Calculated tax credit because of eliminated gain in inventories within the Group	35.1
Tax liabilities	(46.1)
	1,751.8

According to the tax law in force in California, the purchase price of shares in excess of the book value of stockholders' equity is deductible over a period of 15 years if the purchase complies with specified conditions. Thus the subsidiary Össur Holdings Inc. will not have to pay taxes for the next 15 years on profits amounting to ISK 5,170 million. The Company's plans estimate sufficient annual profits to make use of the taxable benefits; thus 30% of the amount has been capitalized, despite the fact that the tax percentage in California is closer to 40%. The amount will be charged as income tax in the Statement of Earnings over the next 15 years. Accordingly, ISK 84.5 million was charged as income tax in the Statement of Earnings for the year 2000, and the remaining balance amounts to ISK 1,628.6 million.

Fixed Assets and Depreciation

6. Depreciation of fixed assets is calculated on a straight-line basis. The amounts recorded are based on the restated historical cost at year-end. The following rates are used:

Real estate	2.5-6%
Automobiles	10-20%
Machinery and equipment	12-15%
Fixtures and office equipment	10-33%

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

	Buildings and sites	Automobiles	Machinery and equipment	Fixtures and office equipment	Total
Total value January 1.	21,1	17,3	102,5	82,0	222,9
Previously depreciated.....	(6,9)	(2,5)	(59,2)	(32,0)	(100,6)
Net book value January 1	14,2	14,8	43,3	50,0	122,3
Revaluation/exchange rate differences during the year	0,0	0,5	0,2	0,0	0,7
Additions during the year, cost	252,4	0,3	326,6	164,8	744,1
Additions during the year, accumulated depreciation ...	(20,3)	0,0	(145,7)	(45,8)	(211,8)
Purchases during the year,	2,5	1,8	95,1	38,2	137,6
Sales during the year	(12,0)	0,0	(11,3)	(0,6)	(23,9)
Depreciation during the year	(3,7)	(2,7)	(45,2)	(46,5)	(98,1)
Net book value December 31	233,1	14,7	263,0	160,1	670,9

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

Cost of goods sold	81.0
Sales and marketing expenses	3.8
Research and development expenses	2.4
General and administrative expenses	10.9
	98.1

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	1,315.1	1,283.8

The Group owns one building situated in California, USA.

At year-end 2000 the Group had a carry-forward loss, which can be used in following years. The calculated taxable benefits thereof, 30% of the carry-forward loss or ISK 134.2 million, have been capitalized. This is offset by the tax liabilities of the Group, which are estimated to be paid over the next few years; calculated tax liabilities amounting to ISK 46.1 million are deducted from the calculated tax credit.

In preparing the Consolidated Financial Statements, accumulated gains in inventories resulting from intergroup transactions amounting to ISK 117 million were eliminated. This results in an overstatement of the calculated income tax of the Group, and an adjustment of ISK 35.1 million is made in the Consolidated Financial Statements to account for this.

5. Other intangible assets include, on the one hand, capitalized development expenses of previous years and, on the other hand, the cost of obtaining patents for the products manufactured by the Company. These assets are amortized by 10-20% annually. All 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	37.4
Previously amortized	(19.3)
Book value at January 1.	18.1
Revaluation and exchange rate difference during the year	0.6
Addition during the year, cost	31.7
Addition during the year, accumulated amortization	(9.6)
Amortized during the year	(7.9)
Book value at December 31	32.9

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

Development expenses	7.6
General and administrative expenses	0.3
	7.9

Investments

8. Long-term securities are intended for the future growth and expansion of the Group. Long-term securities are recorded at purchase price adjusted due to price level changes and are specified as follows in millions of ISK.

Notes and bonds	46.8
Shares held in trust	15.6
Mutual funds	36.1
Other long-term securities	60.0
	158.5

Inventories

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

Finished products have been reduced in the Consolidated Financial Statements by unrealized gain from intergroup transactions.

Short-term Receivables

10. Accounts receivable are valued at cost plus incurred interest and exchange rate difference, less a provision for doubtful receivables amounting to ISK 17.3 million. This provision is deducted from the appropriate Balance Sheet items and does not represent a final write-off.

Stockholders' Equity

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, 2000	211.9	984.9	15.2	174.7	1,386.7
New common stock	116.5	6,675.7			6,792.2
Revaluation of fixed assets				5.3	5.3
Translation difference of shares in foreign companies...				648.9	648.9
Calculated inflation adjustment.....				(9.0)	(9.0)
Loss for the year				(6,678.5)	(6,678.5)
	328.4	7,660.6	15.2	(5,858.6)	2,145.6

Issued shares at year-end numbered a total of 328,441,000. The nominal value of each share is ISK 1.

Stock Option Contracts and Obligations to Increase Share Capital

14. The Group has entered into stock option contracts with Directors, employees and other parties related to the operations; furthermore, a portion of the purchase price of companies purchased by the Group has been contingent upon the achievement of specified results. These contracts contain an obligation to increase share capital in the future.

The accounting method used is to enter the difference between the market price and the stock option price on the date the

contract is concluded as an increase in the purchase price of the companies that the Group has purchased, or proportionally as an expense during the contract period until the stock option first becomes exercisable. In instances when the market price on the date the contract is concluded has been equal to or lower than the stock option price, no entry has been made.

The following is a summary of stock option contracts and obligations to increase share capital when all conditions have been fully met:

Contract rate/conditions	Number of shares (in Thousands)				
	2001	2002	2003	2004-5	Total
3.125/conditional	429.0	429.0	429.0	429.0	1,716.0
24.0/conditional	799.0	799.0	799.0	1,598.0	3,995.0
26.14/unconditional	1,900.0	0.0	0.0	0.0	1,900.0
58.5/conditional	400.0	400.0	400.0	800.0	2,000.0
64.0/conditional	550.0	550.0	550.0	550.0	2,200.0
73.7/conditional	0.0	0.0	0.0	3,550.0	3,550.0
	4,078.0	2,178.0	2,178.0	6,927.0	15,361.0

At year-end 2000 the total number of shares issued in Össur hf. numbered 328,441,000. Furthermore, contracts have been made regarding the delivery of a maximum of 15,360,372 shares in Össur hf. during the next five years at the price specified above. As a comparison, the listed market price of shares was ISK 66.0 at year-end 2000.

Long-term Debts

15. Long-term debts are recorded in terms of the year-end 2000 price level. Long-term debts, classified by currency, are specified as follows in millions of ISK:

	Remaining Balance
Long-term debts in foreign currencies:	
Loans in USD	1,539.8
Loans in SEK	18.7
Loans in DEM	34.8
Loans in NLG	34.1
Loans in JPY	1.3
	1,628.7
Loans in ISK	313.6
	1,942.3

Aggregated annual maturities are as follows:

In 2001	770.3
In 2002	249.3
In 2003	248.5
In 2004	132.5
Later	541.7
	1,942.3

16. Other long-term debts are specified as follows in millions of ISK:

Amounts owed to the previous owners of Flex-Foot Inc. and associated companies.....	254.1
Amounts owed to the previous owners of Century XII Innovations Inc. and associated companies	84.7
Amounts owed to the previous owners of Mega Hali Med AB and J.B. Förvaltnings AB	140.7
Amounts owed to directors of overseas companies	77.9
	557.4

The payment of other long-term debts is conditional, but as it is considered most likely that the conditions will be met, the debts are recorded in full in the Financial Statements for the year 2000. The payment of amounts owed to the previous owners of Flex-Foot and Century XII are conditional upon the achievement of specified operational results in the years 2001-2003. Amounts owed to the previous owners of Mega Hali Med and J.B. Förvaltnings, on the one hand, and to directors of foreign companies, on the other hand, are conditional upon the achievement of specified operational results in the years 2001-2005. Shares in Össur hf. will then be delivered as payment of the debts. These debts are recorded as debts in domestic currency in the summary of long-term debts classified by currency.

Charged Goodwill

17. The Össur Group purchased a number of companies during the year. The part of the purchase price of the companies that is in excess of the book value of their stockholders' equity at the date of purchase and cannot be allocated to specific assets is recorded as goodwill. According to Act no. 144/1994 on Financial Statements and Regulation no. 696/1996 on the Presentation and Contents of Financial Statements and Consolidated Financial Statements, goodwill is expensed in the Statement of Income. Taxable benefits of the purchase of the companies have been deducted from irregular items. The charged goodwill is further specified as follows in millions of ISK:

Flex-Foot Inc. and associated companies	4,105.2
Century XXII Innovations Inc. and associated companies	2,645.3
Mega Hali Med AB and J. Bergström Förvaltnings AB and associated companies	332.4
Skóstofan ehf.	4.8
	7,087.7

Taxation

18. Taxes on the Group's profits during the year have been calculated and entered into the Consolidated Financial Statements. Charged income tax in the Statement of Income is further specified as follows in millions of ISK:

Income tax payable in the year 2001	12.3
Amortized taxable benefits relating to the purchase of other companies	84.5
Income tax effects of the elimination of unrealized inventory gains	(24.6)
Other changes in calculated tax benefits/tax liabilities in the year 2000	(16.0)
	56.2

Prepaid investment income tax has been deducted from the calculated taxes for the year in the Balance Sheet.

Commitments and Mortgages

19. The Company's assets have been mortgaged and committed as a security for debts with a remaining balance of ISK 1,208.9 million at year-end.

Other Issues

20. The Groups has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is ISK 363.2 million.
21. Eight leases have been entered into for premises in Reykjavik, the Netherlands, Sweden, the United Kingdom and the United States. The leases expire in the years 2001-2020. The total amount of rent for the Group in the year 2000 is ISK 48.5 million.
22. At year-end 2000, ISK 4,076.7 million of the Group's assets and ISK 2,232.9 million of its liabilities were linked to foreign currencies.
23. The sales of the Group is specified as follows according to sales regions:

America	68%
Europe, excluding Iceland	24%
Iceland and other countries	8%
	100%

24. Financial income and (financial expenses) are specified as

follows in millions of ISK:

	2000	1999
Interest income	83.6	45.9
Dividends	0.6	0.0
	84.2	45.9
Interest expenses and exchange rate difference	(224.1)	(18.5)
General price level gain (loss)	9.0	(20.7)
	(130.9)	6.4

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

	2000
Salaries	856.3
Salary-related expenses	182.7
	1,039.0
Average number of positions	327.0

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

Cost of goods sold	406.8
Sales and marketing expenses	230.2
Research and development	131.3
General and administrative expenses.....	270.7
	1039.0

The Group has granted loans to employees to purchase shares in the Company. The remaining balance of the loans is ISK 14.7 million at year-end 2000. The loans were granted for two years and are interest free.

The total fees to Directors and the Chief Executive Officer of the Group amounted to ISK 18.8 million in 2000. These persons have entered into stock option contracts regarding the 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.

26. The Group has entered into forward contracts in order to limit currency exchange risk. Forward contracts are specified as follows at year-end 2000:

For delivery / Sale - purchase	Sold currency	Purchased currency
January 5th 2001 / EUR — USD	2,527.2	2,250.0
January 5th 2001 / GBP — USD	206.3	300.0
January 5th 2001 / CHF — USD	432.8	250.0
January 5th 2001 / JPY — USD	22,106.0	200.0
January 5th 2001 / SEK — USD	4,858.5	500.0
March 30th 2001 / SEK — USD	4,267.8	450.0
June 29th 2001 / SEK — USD.....	4,356.0	450.0
December 28th 2001 / SEK — USD...	4,320.0	450.0

Cash Flow

27. Net cash provided by operating activities and working capital provided by operating activities relate only to the regular operations of the Group, as the operational results have been fully adjusted for amortized goodwill because of the acquisition of other companies.

Changes in operational assets and liabilities during the year are calculated from the date of acquisition of the companies until year-end, but otherwise from the beginning of the year until year-end 2000. Cash and cash equivalents in acquired companies are recorded as a separate item in the Statement of Cash Flows.

Other calculated items in the operational activities are specified as follows:

Indexation and exchange rate differences on assets and liabilities	134.6
Calculated inflation adjustment.....	(9.0)
Gains from sales in excess of loss from sales	(2.1)
	123.5

The Statement of Cash Flows shows only the part of new capital that was paid in cash and the investments paid in cash during the year.

Taxes paid during the year amounted to ISK 74.1 million. Interest expenses in excess of interest income amounted to ISK 72.8 million in the year 2000.

VIII. The Board of Directors



Sigurbjörn Þorkelson



Pétur Guðmundarson, Össur Kristinsson, Gunnar Stefánsson and Þorkell Sigurlaugsson.



Kristján Ragnarsson

On the Board of Directors of Össur are Gunnar Stefánsson, Kristján Ragnarsson, Pétur Guðmundarson, Sigurbjörn Þorkelsson, Þorkell Sigurlaugsson and Össur Kristinsson.

Gunnar Stefánsson has been on the Board of Directors of the Company since 1993. He is the Assistant Director of the Marine Research Institute. He has also worked for the International Marine Research Council and the University of Iceland. Mr. Stefánsson holds a Doctorate in Statistics from Ohio State University in Columbus, Ohio, USA.

Kristján Ragnarsson became a member of the Board of Directors of Össur in 1999. Mr. Ragnarsson has been working in the United States for many years. Since 1986 he has been a Director of the Rehabilitation Department at Mount Sinai Hospital in New York. Since 1997 he has been Senior Vice-President of the same hospital. Mr. Ragnarsson graduated from the University of Iceland's Medical School in 1969 and completed his specialization in Energy and Rehabilitation Medicine in the United States in 1976.

Pétur Guðmundarson has been the Chairman of the Company's Board of Directors since 1995. Mr. Guðmundarson is a partner in the law firm Logos and has been an advocate to the Supreme Court since 1986. He is on the Board of Directors of Glóbus Vélaver hf. Mr. Guðmundarson holds a cand.jur. degree from the University of Iceland.

Sigurbjörn Þorkelsson became a member of the Board of Directors of the Company in 1999. He has been a manager at Lehman Brothers Investment Bank since 1998. Mr. Þorkelsson graduated as a mechanical engineer from the University of Iceland in 1990 and graduated with a Master's degree in Industrial Engineering and Finance from Stanford University in the United States in 1992.

Þorkell Sigurlaugsson has been on the Board of Directors of the Company since 1997. He is the Manager of the Development Department of the Icelandic Steamship Company (Eimskip). Mr. Sigurlaugsson is Chairman of the Boards of Directors of the software companies Tölvumyndir hf., Forritun hf., Hópvinnukerfi hf. and Framtíðarsýn hf. as well as the publishing company Viðskiptablaðið (the Business News). He is also Deputy Chairman of the Boards of Directors of the Iceland Stock Exchange hf. and Marel hf. Mr. Sigurlaugsson holds a degree in Business Administration from the University of Iceland.

Össur Kristinsson is the Founder of the Company. He has been on the Board of Directors of the Company since 1971 and served as General Manager of the Company from 1971 until 1989. Mr. Kristinsson studied prosthetics and orthotics in Sweden and was certified in prosthetics and orthotics by the Swedish Board of Certification for Prosthetics and Orthotics in 1971.

IX. The Management Team of Össur



Maynard C Carkhuff, President and CEO, Össur Prosthetics



Árni Alvar Arason, CFO, Corporate Finance



Huld Magnúsdóttir, Director of Strategy and Quality Co-ordination



Hilmar Bragi Janusson, Vice President, R&D / Business Development



Mark H Emery, Vice President of Finance



Gary F Wertz, Senior Vice President, Marketing and Sales



Siv Schalin, Vice President of Össur Components and Cosmetic Covers, Business Unit, Eythor Bender, Vice President, Össur Interface Systems Business Unit, Erlendur G Arnarson, Vice President, Össur Foot Products Business Unit, William L Phillips, Vice President of Össur Knee Systems and Products Business Unit



Richard N Myers, Vice President, Global Manufacturing

ÁRNI ALVAR ARASON, CFO, Corporate Finance, has been with Össur since 1996. He was Marketing Manager from 1997 to 1999, following two years as Product Manager with the company. From 1994 to 1996, he was a Marketing Manager at Folda hf., and prior to that he was a 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.

ERLENDUR G ARNARSON, Vice President, Össur Foot Products Business Unit, has worked with Össur since 1997 in a product management capacity and as Marketing Director. Previously Mr Arnarson was a Marketing Director for Altech hf. (1996 —1997), a Sales Project Manager for Burmeister & Wain Scandinavian Contractor AS in Denmark, and until 1993 he was a Sales Manager for Via Technique AS, also in Denmark. He holds a degree in industrial operational engineering from the Technical College of Iceland and an Exam Exporteur degree from the Danish School of International Marketing and Export.

EYTHOR BENDER, Vice President, Össur Interface Systems Business Unit, joined Össur in 1995. He was the company's Director of Sales from 1997 to 2000 and Marketing Manager between 1995 and 1997. Prior to then, Mr Bender worked at the Hewlett Packard European Marketing Center in Germany (1993 — 1995) and at Hewlett Packard Medical Division Europe, also in Germany, as a marketing consultant (1989 to 1993). He has a degree in Business Administration from the University of Tübingen in Germany.

GARY F WERTZ, Senior Vice President, Marketing and Sales, has over 20 years of experience in the healthcare sector. He has worked as Flex-Foot's Vice President of Marketing and Sales and was a strategy consultant for biotech and medical device companies before he joined 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, R&D / Business Development, has been with Össur since 1993. He was a researcher with the Technological Institute of Iceland from 1987 to 1988. Mr Janusson is also a Board Member with a number of other Icelandic companies. Mr. Janusson holds a BS degree in Chemistry from the University of Iceland and a Doctorate in Chemical Science and Engineering from Leeds University in England.

HULD MAGNUSDOTTIR, Director of Strategy and Quality Co-ordination, joined Össur in 1993. Previously a sales and marketing representative with the Mjólkursamsalan (a dairy cooperative owned by milk producers), Ms Magnusdottir has a BA in International Relations from Sussex University in England.

JON SIGURDSSON, Össur President and CEO, has lead the company since 1996. He was Commercial Counsellor to Iceland's Export Council in New York between 1992 and 1996 and Head of Finance of Alafoss hf. from 1989 to 1992. Mr Sigurdsson also worked as Head of the Foreign

Division of Eimskip hf. (1986 — 1989) and in the Development Division of Bang & Olufsen AS in Denmark (1982 — 1984). He is a Board Member of Iceland's Export Council, the Research Commission of the University of Iceland, and Sjóklaedagerdin hf. Mr Sigurdsson has a BS in Mechanical Engineering from the Technical College in Odense, Denmark, and a Master's degree in Business Administration from the United States International University in San Diego.

MAYNARD C CARKHUFF, President and CEO of the Prosthetic Division, has 30 years of experience in the healthcare sector. The CEO of Flex-Foot, prior to its acquisition, Mr Carkhuff graduated with a BS in Marketing from California State University and went on to study at the University of Southern California Graduate School of Business Administration. Before he joined Flex-Foot, Mr Carkhuff was Vice President of the Denar Corporation and Director of Marketing at Allergan Pharmaceuticals. He also worked in the marketing divisions of Riker Laboratories and Pfizer Laboratories. Mr Carkhuff has taken an active part in social work related to the prosthetics sector in the United States.

MARK H EMERY, Vice President of Finance, has been Flex-Foot's Vice President of Finance and CFO since 1996. Before working with Flex-Foot, he was CFO of Glacier Water Services (1995 -1996) and CFO of SysteMed (1990 - 1994). Mr Emery was Senior Manager with Ernst & Young between 1981 and 1990. He holds a BA degree in Business and Economics from Whittier College and is also a Certified Public Accountant.

RICHARD N MYERS, Vice President, Global Manufacturing, has worked as Vice President of Operations at Flex-Foot since 1998. Before he began working with Flex-Foot, he was Factory Manager at Surgical Technologies Inc. Previously Mr Myers was Director of Manufacturing at Baxter Vascular Systems Division (1995 — 1997) and he held various positions with Steri-Oss Inc. (1987 — 1994), culminating in the role of was Director of Manufacturing. Mr Myers has a BA in Chemistry from Southern California College.

SIV SCHALIN, Vice President of Össur Components and Cosmetic Covers Business Unit, has been with Össur since 1996. Previously she was Marketing Manager for Iceland's Export Council (1992 - 1996) and Sales Manager for Alafoss (1989 - 1992). Ms Schalin has a Master's degree in Economics from the Swedish School of Economics and Business Administration in Finland and a Master's degree in Business Administration from the University of Western Ontario in Canada.

WILLIAM L PHILLIPS, Vice President of Össur Knee Systems and Products Business Unit. He has over 25 years of administrative experience in various sectors including the media, prosthetics, electronic equipment and production of medical goods. Between 1990 and 1998 he was the owner, President and CEO of Mauch Laboratories, prior to acquisition of the company by Flex-Foot in 1998. Previously, he was President of Enterprise Systems Group, Inc. and in 1994 he founded Electrologic of America, Inc., which specializes in the production of electronic products for the space and medical equipment industries. Mr Phillips has a BA in Multi-media from Memphis State University.

