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Report of the Board of Directors

In the opinion of the Board of Directors and the Managing Director of Össur hf. these annual accounts present all the necessary information to show the position of the Company at year's end, the income statement, and financial developments during the year.

Consolidated income for the Össur companies amounted to ISK 1,303 million in 1999 as compared to ISK 1,034 million during the preceding year. There was a 26% increase in turnover compared to the previous year. During the year an average of 108 employees worked for the parent company, an increase of 25 over 1998; 14 employees worked for Össur's subsidiaries in 1999 compared to 18 during the preceding year.

With the purchase by Össur hf. of a 15% share in Össur UK, Ltd. during the year, the subsidiary became wholly owned by the Össur complex of companies. During the year the Sales Department of Össur took over the operations of the subsidiary in Luxembourg with the objective of disbanding that firm. All costs of moving operations and the dissolution of the firm have been charged off in the annual accounts for 1999.

An offering of common shares was made and the Company was listed on the ICEX-Main List of the Icelandic Stock Exchange on 11th October 1999. Shares sold totalled a par value of ISK 45.6 million, of which the increase in the Company's shares accounted for ISK 38 million, and the then shareholders sold shares amounting to a par value of ISK 76 million. The shares offered to the public were sold for ISK 24 per share and the average return per share for the special tender was ISK 31. At year's end shares issued were worth a total of ISK 211,937,460. The listed share price on the stock exchange on 31st December 1999 was ISK 40.00. The Company's assets totalled ISK 8,480 million at year's end, the Company's price earnings ratio was 60.8, and profits for the year amounted to ISK 0.66 per share.

The Company's operating profit was almost ISK 140 million. In accordance with the policy of the Board of Directors that was stated in the prospectus, the Board proposed that no dividend be paid to shareholders in 2000. In other respects, the Board points to the annual accounts to see the changes in the Company's equity position.

The Company's plan of operations which was published in the share prospectus was based on a consolidated income of ISK 1,300 million and before tax profit of ISK 185 million. According to the annual accounts for 1999 the consolidated income actually came to ISK 1,303 million and total pre-tax profit to ISK 216 million.

At the end of the year shareholders in Össur hf. numbered 4,641 as against 7 at the beginning of the year. One shareholder has a share greater than 10% and that is Össur Kristinsson, who holds 49.27% of the Company. According to an earlier declaration, he intends to reduce his share in the Company during the next year.

The Board of Directors and the Managing Director of Össur hf. hereby confirm the annual accounts of the consolidated Össur companies for the year 1999 with their signatures.

Reykjavik, 7th February 2000-02-17

The Board of Directors



Össur Kristinsson



Pétur Gudmundarson
Chairman



Gunnar Stefánsson



Thorkell Sigurlaugsson



Kristján T. Ragnarsson



Jón Sigurdsson
Managing Director

Key figures

Working capital from operations in terms of '99 prices	ISK '000	188,171	118,036	41,265	21,123
- as ratio to long-term debt and owners' equity	%	19.2	30.9	11.9	6.2
- as ratio to investment, current maturities and divid.		2.7	2.4	0.7	0.3

Liquidity and solvency

Acid-test ratio		1.5	1.7	1.3	1.2
Current ratio		2.2	2.7	2.3	2.3
Equity ratio	%	78.6	35.7	23.2	23.9

Asset utilization and efficiency

Net sales pr. employee in terms of 1999 prices	ISK '000	10,679	10,545	9,442	9,481
Total assets turnover		1.1	2.2	1.8	1.7
Inventory turnover, raw materials		5.7	5.9	5.3	4.2
Inventory turnover, finished products		7.0	6.2	6.0	5.5
Days' sales in receivables	Days	40	39	41	44

Profitability

Return on total assets	%	22.2	22.2	4.6	5.0
Return on common equity	%	41.8	77.3	12.8	4.5
Operating profit as ratio to net sales	%	16.1	14.7	5.0	7.0
Net income before taxes as ratio to net sales	%	16.6	12.5	4.0	5.1
Net income for the year as ratio to net sales	%	10.7	7.7	1.4	0.9

Market

Year-end market value	ISK '000	8,477,498			
Price/earnings ratio		60.8			
Price/book ratio		6.1			
Number of shares	ISK '000	211,937			
Profit per share	ISK	0.66			

Auditors' report

We have audited the accompanying balance sheet of the parent company Össur hf. (Ltd.) and the consolidated financial statements of Össur Ltd. and its subsidiaries as of December 31st 1999, and the related statements of income and cash flows for the year then ended. The financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of foreign subsidiaries are 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our own audit and the unqualified audit reports on foreign subsidiaries, the financial statements present fairly, in all material respects, the financial position of the company as of December 31st 1999, the results of its operations and cash flows for the year then ended in accordance with generally accepted principles of accounting.

Reykjavík, February 7th 2000

Deloitte & Touche

Stefán Svavarsson,
Árni Tómasson,

State Authorized Accountants

Income statement for 1999

	Note	<i>Consolidated statement</i>		<i>Parent company</i>	
		1999	1998	1999	1998
<i>Operating revenues</i>					
Net sales	23	1.298.676.652	1.027.144.653	1.081.647.258	818.566.309
Other income		4.128.785	6.383.520	4.044.250	35.196.316
<i>Operating revenues</i>		<u>1.302.805.437</u>	<u>1.033.528.173</u>	<u>1.085.691.508</u>	<u>853.762.625</u>
<i>Operating expenses</i>					
Cost of materials used		232.783.086	219.605.468	239.047.078	227.213.070
Salaries and related expenses	25	344.744.104	308.834.362	281.383.312	230.474.066
Research and development costs		88.513.478	49.158.591	90.707.309	54.925.963
Other operating expenses		398.810.029	276.123.792	278.340.132	183.697.549
Depreciation.....	4	28.605.554	27.899.770	22.976.771	21.549.765
<i>Operating expenses</i>		<u>1.093.456.251</u>	<u>881.621.983</u>	<u>912.454.602</u>	<u>717.860.413</u>
<i>Operating profit</i>		<u>209.349.186</u>	<u>151.906.190</u>	<u>173.236.905</u>	<u>135.902.212</u>
<i>Net interest</i>					
Interest income (expenses)	24	6.689.912	(23.028.571)	7.706.349	(22.121.965)
<i>Income before taxes</i>		216.039.098	128.877.619	180.943.255	113.780.247
<i>Taxes</i>					
	17				
Income tax.....		(73.841.819)	(38.055.575)	(59.339.780)	(37.776.945)
Net worth tax.....		(2.452.772)	(2.476.070)	(2.452.772)	(2.471.162)
<i>Net income before minority interests</i> <i>/subsidiaries</i>		139.744.507	88.345.974	119.150.703	73.532.140
<i>Minority interests and subsidiaries</i>					
Intercompany investment income	6	0	0	20.273.109	13.665.307
Minority interest in net income	2	(320.695)	(1.148.529)	0	0
<i>Net income before extraordinary items</i>		139.423.812	87.197.445	139.423.812	87.197.447
<i>Extraordinary expenses</i>					
Discontinued operations		0	(8.084.073)	0	(8.084.073)
<i>Net income for the year</i>		<u>139.423.812</u>	<u>79.113.372</u>	<u>139.423.812</u>	<u>79.113.374</u>

Balance Sheet

Assets

	Note	Consolidated statement		Parent company	
		1999	1998	1999	1998
Fixed assets					
<i>Intangible assets:</i>					
	3				
Research costs		11.300.095	16.165.088	11.300.095	16.050.211
Patent.....		6.794.568	3.272.820	6.794.568	3.272.820
		<u>18.094.663</u>	<u>19.437.908</u>	<u>18.094.663</u>	<u>19.323.031</u>
<i>Operating fixed assets:</i>					
	4				
Buildings and sites.....	5	11.988.973	11.807.876	11.988.973	11.807.876
Automobiles		14.819.992	12.663.422	11.184.277	10.575.567
Machinery and equipment		39.656.153	33.153.840	36.564.150	29.423.621
Fixtures and furniture		55.842.059	55.560.364	45.997.103	41.478.624
		<u>122.307.177</u>	<u>113.185.502</u>	<u>105.734.503</u>	<u>93.285.688</u>
<i>Long-term investments:</i>					
Loans to subsidiaries.....	7	0	0	117.523.113	180.900.121
Share investments.....	6	0	0	1.160.952.258	(962.936)
Bonds.....	8	1.148.223.583	2.788.057	23.098.644	5.631.056
		<u>1.148.223.583</u>	<u>2.788.057</u>	<u>1.301.574.015</u>	<u>185.568.241</u>
<i>Total fixed assets</i>		<u>1.288.625.423</u>	<u>135.411.467</u>	<u>1.425.403.181</u>	<u>298.176.960</u>
Current assets					
<i>Inventories:</i>					
	9				
Raw materials and goods in process.....		50.661.574	36.992.554	50.049.687	36.363.533
Finished products		95.029.448	103.145.541	73.459.513	59.500.556
		<u>145.691.022</u>	<u>140.138.095</u>	<u>123.509.200</u>	<u>95.864.089</u>
<i>Short-term claims:</i>					
Accounts receivables.....	10	163.433.326	128.120.082	95.155.873	32.075.169
Other receivables	11	40.894.288	27.702.036	39.489.041	14.527.287
		<u>204.327.614</u>	<u>155.822.118</u>	<u>134.644.915</u>	<u>46.602.455</u>
<i>Liquid funds:</i>					
Marketable securities	12	33.842.602	24.270.598	33.842.602	24.270.598
Cash.....		90.983.746	58.935.575	24.444.040	27.587.058
		<u>124.826.348</u>	<u>83.206.173</u>	<u>58.286.642</u>	<u>51.857.656</u>
<i>Total current assets</i>		<u>474.844.984</u>	<u>379.166.386</u>	<u>316.440.756</u>	<u>194.324.201</u>
Total assets		<u>1.763.470.407</u>	<u>514.577.853</u>	<u>1.741.843.937</u>	<u>492.501.161</u>

Liabilities and equity

	Note	<i>Consolidated statement</i>		<i>Parent company</i>	
		<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Equity					
Share capital.....	13	211.937.460	4.882.500	211.937.460	4.882.500
Additional paid in capital.....		984.913.993	0	984.913.993	0
General legal reserve		15.163.006	1.220.625	15.163.006	1.220.625
Retained earnings.....		<u>174.740.504</u>	<u>177.735.464</u>	<u>174.740.504</u>	<u>177.735.463</u>
<i>Total owners' equity</i>		<u>1.386.754.963</u>	<u>183.838.589</u>	<u>1.386.754.963</u>	<u>183.838.588</u>
Minority interest in net equity (negat.)	2	<u>54.778</u>	<u>(223.985)</u>	<u>0</u>	<u>0</u>
Tax liabilities					
Deferred income tax.....	14	<u>751.504</u>	<u>6.254.885</u>	<u>11.859.110</u>	<u>13.109.678</u>
Liabilities					
<i>Long-term liabilities:</i>					
Bank of Iceland, bond payable.....	15	76.307.709	92.500.319	76.307.709	92.500.319
Bearer bonds.....		81.466.965	77.141.657	81.466.965	77.141.657
Other long-term bonds.....		<u>21.759.251</u>	<u>38.539.165</u>	<u>21.759.251</u>	<u>35.173.446</u>
		179.533.925	208.181.141	179.533.925	204.815.422
Current maturities of long-term debt		<u>(17.309.466)</u>	<u>(26.523.871)</u>	<u>(17.309.466)</u>	<u>(24.588.460)</u>
<i>Long-term liability</i>		<u>162.224.459</u>	<u>181.657.270</u>	<u>162.224.459</u>	<u>180.226.962</u>
<i>Current liabilities:</i>					
Current maturities, as above.....	16	17.309.466	26.523.871	17.309.466	24.588.460
Accounts payable.....		63.438.254	40.957.760	47.591.132	32.437.737
Subsidiary liabilities.....		0	0	13.454.475	0
Accrued taxes payable	17	74.128.135	37.954.142	61.483.758	33.930.389
Other current liabilities.....		20.366.576	10.109.162	7.826.867	1.502.834
Accrued salaries, and other exp. payable		<u>38.442.272</u>	<u>27.506.159</u>	<u>33.339.707</u>	<u>22.866.512</u>
<i>Current liabilities</i>		<u>213.684.703</u>	<u>143.051.094</u>	<u>181.005.406</u>	<u>115.325.933</u>
<i>Total liabilities</i>		<u>375.909.162</u>	<u>324.708.364</u>	<u>343.229.865</u>	<u>295.552.895</u>
Liabilities and owners' equity		<u>1.763.470.407</u>	<u>514.577.853</u>	<u>1.741.843.937</u>	<u>492.501.161</u>

Statement of cash flows 1999

	Note	Consolidated statement		Parent company	
		1999	1998	1999	1998
Operating activities					
Net income for the year.....		139.423.811	79.113.372	139.423.811	79.113.372
<i>Reconciling items not involving cash:</i>					
Depreciation.....	4	34.100.637	33.249.840	28.471.854	26.899.836
Gain on net monetary position.....	1	20.766.132	(23.374)	20.845.977	(1.047)
Indexation and exchange rate difference . on long-term debt.....		(1.996.040)	3.263.665	(1.140.089)	3.408.292
Loss on sale of operating fixed assets.....		1.059.032	1.054.026	147.029	319.428
Net change in deferred tax-liability.....		(5.503.381)	(3.262.677)	(1.250.568)	3.592.116
Intercompany investment income.....		0	0	(20.273.109)	(13.665.307)
Minority interest in net income.....	2	320.695	1.148.529	0	0
Working capital from operations		188.170.886	114.543.381	166.224.906	99.666.690
<i>Changes in operating assets and liabilities</i>					
Inventories (increase) decrease.....		(5.552.927)	(11.146.737)	(27.645.111)	(22.583.730)
Accounts receivable (increase) decrease...		(27.617.740)	(29.628.153)	(6.380.620)	(24.288.533)
Current liabilities (decrease) increase.....		79.848.015	6.800.391	72.958.466	21.975.731
Cash provided by operations		234.848.234	80.568.882	205.157.641	74.770.158
Investment activities					
Purchase price of fixed assets.....		(50.911.986)	(34.677.068)	(43.149.948)	(30.050.439)
Sales price of fixed assets.....		8.947.082	14.370.105	8.437.741	11.650.000
Share investments.....		(7.086)	0	(1.142.290.291)	0
Long term securities and other receivables..		(1.141.521.232)	4.405.606	(14.887.361)	1.559.590
Investment activities		(1.183.493.222)	(15.901.357)	(1.191.889.859)	(16.840.849)
Financing activities					
Maturities on long-term debt.....		(27.372.343)	(36.370.348)	(24.476.302)	(27.305.966)
Paid in capital.....		1.017.637.506	0	1.017.637.506	0
Financing activities		990.265.163	(36.370.348)	993.161.204	(27.305.966)
Change in cash position.....		41.620.175	28.297.177	6.428.986	30.623.343
Cash - beginning balance.....		83.206.173	54.908.996	51.857.656	21.234.313
Cash - closing balance.....		124.826.348	83.206.173	58.286.642	51.857.656

Notes to the financial statements

Summary of accounting policies

1. Presentation and consistency

In preparing the financial statements the accounting principles are, in all material respects, consistent with those of the preceding year. The financial statements are prepared according to the IAS principles, adjusted for the effects of general price level changes as described in the following paragraph. The inflation rate in Iceland in 1999 was 5.61%.

Effects of general price changes

The financial statements have been adjusted for the effects of general price-level changes on the Company's operation and financial position. The adjustment is based on the changes in the Consumer Price Index. In 1999 the index rose by 5.61%. The following methods were used:

- The effect of general price-level changes on monetary assets, inventories and liabilities at the beginning of the year and their changes during the year have been calculated and are accounted for in the financial statements. Since the net monetary position including inventories was positive during the year, a net debit entry of ISK 20.8 million is included in the calculation of profits. The counterbalancing entry is to the Revaluation Account under Owners' Equity.
- The book value of Intangible Assets and Operating Fixed Assets is revalued to 1999 year-end prices based on the increase in the CPI-index. The revision is posted to the revaluation account under owner's equity. Depreciation and amortization of fixed assets is recorded in the Income Statement at the year's average price level.
- Assets and liabilities denominated in foreign currencies are presented in Icelandic currency (ISK) at the rate of exchange prevailing at the end of the year. Operating income and expenses in foreign currencies are converted to ISK at the exchange rate of the date of transaction.

2. Consolidation

The consolidated financial statements pertain to the following subsidiaries:

	<u>Ownership share</u>
Össur USA, Inc	100%
Össur Luxemburg, S.A.	100%
Össur stodaeki hf. (Ltd.)	90%
Össur UK, Ltd	100%
Össur Holding	100%

The consolidated financial statements are prepared in conformity with the purchase method of accounting; the minority interest stems from Össur stodaeki hf. (Ltd). Each amount in the balance sheets of the foreign subsidiaries is converted to ISK at the end-of-year rate of exchange, but amounts in the income statements of the foreign subsidiaries are converted to ISK at the average year rate of exchange.

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

Notes to the financial statements

3. Intangible assets

Intangible assets recorded include capitalized research & development costs of previous years and the capitalized cost for a new patent in 1999. Intangible assets are revaluated and expensed on a straight line basis for a period of five years. All incurred research and development cost in 1999 is expensed.

Intangible assets:

Restated cost 1.1 1999.....	30,841,376
Accumulated amortization.....	(11,518,345)
Book value 1.1 1999.....	<u>19,323,031</u>
Revaluation.....	1,076,996
Investment in 1999.....	4,658,880
Amortization in 1999.....	(6,964,244)
Book value 31.12.1999.....	<u><u>18,094,663</u></u>

Fixed assets

4. Depreciation on 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:

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

- Changes in the fixed assets accounts of the company consist of the following:

	Building and sites	Automobiles	Machinery and equipment	Fixtures and furniture	Total
Restated cost at 1.1.1999..	17,273,053	15,333,425	69,188,974	57,161,356	158,956,808
Accum.depr. at 1.1.1999..	(5,465,177)	(4,757,858)	(39,765,353)	(15,682,732)	(65,671,120)
Book value 1.1.1999.....	<u>11,807,876</u>	<u>10,575,567</u>	<u>29,423,621</u>	<u>41,478,624</u>	<u>93,285,688</u>
Revaluation in 1999.....	648,873	772,198	1,575,142	2,423,525	5,419,738
Investment in 1999.....	0	11,863,906	14,532,935	12,094,227	38,491,068
Retired/sold.....	0	(9,954,380)	0	0	(9,954,380)
Depreciation in 1999.....	(467,776)	(2,073,014)	(8,967,548)	(9,999,273)	(21,507,610)
Book value 31.12.1999.....	<u><u>11,988,973</u></u>	<u><u>11,184,277</u></u>	<u><u>36,564,150</u></u>	<u><u>45,997,103</u></u>	<u><u>105,734,503</u></u>
Fixed assets of subsidiary companies.....					<u>16,572,674</u>
					<u><u>122,307,177</u></u>

Notes to the financial statements

Depreciation in the Income Statement for 1999 consists of the following:

Fixed assets, depreciation (average price-index).....	21,507,610
Patent, amortization.....	1,469,161
	<u>22,976,771</u>
Subsidiaries depreciation.....	5,628,783
	<u>28,605,554</u>

5. At year end 1999 the official assessment and fire insurance value of buildings was as follows:

	Assessment value	Fire insurance value	Book value
Real estate.....	15,107,000	28,558,000	9,779,674
Land.....	3,166,000		2,209,299
	<u>18,273,000</u>	<u>28,558,000</u>	<u>11,988,973</u>

Share investments

6. Shares in subsidiaries:

	Book value 1.1	Operating income	Translation Difference	Paid in on capital stock	Book value 31.12.99
Össur stoðtæki.....	(170,505)	673,071	(9,565)	0	493,001
Össur USA.....	(3,672,030)	7,446,243	269,661		4,043,874
Össur UK.....	(2,093,845)	9,482,320	(25,028)	40,870	7,404,317
Össur LUX.....	4,973,444	3,191,631	(917,058)		7,248,017
Össur Holding.....	0	(520,156)		1,142,283,205	1,141,763,049
	<u>(962,936)</u>	<u>20,273,109</u>	<u>(681,990)</u>	<u>1,142,324,075</u>	<u>1,160,952,258</u>

- Share investments and intercompany investment income have been reduced by unrealized gain in inventories resulting from intergroup transactions. The unrealized gain, net of income tax effect, is ISK 24.5 million.
7. The operation of the subsidiaries' inventories, receivables and operating fixed assets is financed by the parent company. Material repayments from the subsidiaries are not expected in year 2000.

Securities

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

Bonds and bills of exchange.....	868
Interest-bearing bonds.....	210
Equity securities and share certificates.....	70
	<u>1.148</u>

Notes to the financial statements

Inventories

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

Short-term claims

10. Accounts receivable are valued at cost plus incurred interest, less allowance for doubtful receivables, or ISK 2.5 million in 1999.

11. Other receivables:

Value added tax, refund.....	19,047,899
Prepaid expenses and miscellaneous	<u>20,441,142</u>
	39,489,041
Other receivables in subsidiary companies	<u>1,405,247</u>
.....	<u><u>40,894,288</u></u>

12. **Marketable securities**

Marketable securities are valued at year-end market rate in a Monetary Fund. The securities are readily accessible.

Owners' equity

13. At the beginning of the year owners' equity approximated ISK 183.8 million or ISK 194.1 million in terms of the 5.61% price-index change in 1999. At the end of the year owners' equity amounted to ISK 1,386.8 million. Changes in the owners' equity consist of the following during 1999:

	<u>Nominal value</u>	<u>Year-end value</u>
Owners' equity 1.1 1999.....	183.838.588	194.146.359
Paid-in capital.....	1.036.851.453	1.049.350.867
Income for the year.....	139.423.812	143.257.737
Inflation-adjustment.....	<u>26.641.110</u>	<u>0</u>
	<u>1.386.754.963</u>	<u>1.386.754.963</u>

Changes in the owners' equity accounts consisted of the following during 1999:

	Share Capital	Additional paid in capital	General legal reserve	Retained earnings	Total
Beginning balance.....	4,882,500	0	1,220,625	177,735,463	183,838,588
Paid-in capital.....	51,937,460	984,913,993			1,036,851,453
Issued stock dividend.....	155,117,500			(155,117,500)	0
Revaluation of fixed assets.....				5,795,133	5,795,133
Price level changes - loss.....				20,845,977	20,845,977
Statutory reserve appropriation.....			13,942,381	(13,942,381)	0
Income for the year.....				139,423,812	139,423,812
	<u>211,937,460</u>	<u>984,913,993</u>	<u>15,163,006</u>	<u>174,740,504</u>	<u>1,386,754,963</u>

Notes to the financial statements

Deferred income tax

14. An income tax liability of ISK 11.9 million is recognized in the financial statements of the parent company. The calculation of the income tax liability is based on the difference between the financial statements and the tax statements of the company, mainly depreciation and allowance for doubtful receivables. Payment of income tax has been postponed to future periods, in accordance with tax law, and an income tax liability is recognized.

A decrease in the income tax liability from the previous year of ISK 1.2 million decreases expensed income tax in the Income Statement.

The consolidated income tax liability is ISK 0.8 million compared to ISK 11.9 million for the parent company. The difference is explained by the tax effect of the elimination of unrealized gain from intergroup transactions, as described in note 6.

Long-term liabilities

15. The long-term debt is recorded in terms of the price level at the end of the year. The fixed assets of the company have been pledged as security for these loans. The long-term debt consists of the following at the end of 1999:

	Interest	Remaining balance
Íslandsbanki (bank).....	5-7,8%	76,307,709
Bond issue.....	7.1%	81,466,965
Fjárvangur, investment comp.....	6.0%	3,270,640
Lýsing, leasing comp.....	5,9-7,2%	4,507,017
Bond payable.....	4.5%	7,618,000
FBA, investment bank.....	3-6,5%	6,363,594
		<u>179,533,925</u>

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

Year due:

2000	17,309,466
2001	154,572,719
2002	3,854,490
2003	2,273,652
Later	<u>1,523,598</u>
	<u>179,533,925</u>

Notes to the financial statements

Taxation

17. A provision has been made in the financial statements for the payment of taxes.

Income tax:

Calculated income tax levied in 2000.....	60,590,348
Decrease in income tax liability.....	(1,250,568)
	<u>59,339,780</u>
Subsidiaries' income taxes.....	14,502,039
	<u>73,841,819</u>

Accrued taxes payable:

Income tax.....	60,590,348
Net worth tax.....	2,452,772
Industrial tax.....	864,689
Prepaid taxes.....	(2,424,051)
	<u>61,483,758</u>
Subsidiaries taxes.....	12,644,377
	<u>74,128,135</u>

Insurance

18. Össur hf. is insured against a temporary work stoppage of general operations for ISK 184 million.

19. Fixed assets, other than buildings, are insured for ISK 335.2 million.

Related party transactions

20. At the end of 1999 the parent company has claims against subsidiary companies in the amount of ISK 117.5 million. The total amount of intercompany sales was ISK 588 million during 1999. These intercompany balances and intercompany sales and transactions have been eliminated in the consolidated financial accounts.

Other items

21. The company has taken on lease the ground floor and the first floor at Grjótháls 5, Reykjavík. The lease expires in the year 2007. In addition, the company has an option to purchase the building, as a whole, with three months' prior notice at a fixed price pr. square meter. The cost price will be affected by changes in the general price level. In 1999 the company's lease payments for Grjótháls 5 amounted ISK 28.7 million.

22. At the end of the year ISK 125 million of the company's assets and ISK 76.4 million of the company's debt were in foreign currencies.

Notes to the financial statements

23. Sales according to market areas:

North America	47%
Europe (exclusive of Iceland).....	49%
Iceland and other countries.....	4%
	100%

24. Interest income and expense:

	Consolidated		Parent company	
	1999	1998	1999	1998
Interest income.....	45,950,328	1,693,194	45,095,073	1,351,460
Dividend payments.....	0	0	1,689	1,689
	45,950,328	1,693,194	45,096,762	1,353,149
Interest expense & exchange rate difference..	(18,494,284)	(24,745,139)	(16,544,435)	(23,476,162)
General price level gain (loss).....	(20,766,132)	23,374	(20,845,977)	1,047
	6,689,912	(23,028,571)	7,706,349	(22,121,966)

25. Salaries and related expenses:

Salaries, parent company.....	241,823,813
Related expenses, parent company.....	39,559,499
	281,383,312
Salaries and related expenses in subsidiaries.....	63,360,792
	344,744,104

In addition, salaries and royalties of ISK 45.8 million are expensed in the Income Statement as Research and Development costs.

Össur hf. loaned employees ISK 13.4 million in 1999 to buy shares in the company. The loans are not interest-bearing and the credit period is two years.

Salaries to the Chief Executive and fees to the Board of Directors amounted to ISK 17.8 million in 1999. No share benefits, loans or collateral have been granted to these individuals.

