

OSSUR ANNUAL REPORT



Life Without Limitations®

2007

MILESTONES

December 2007 November 2007 June 2007 June 2007 June 2007 2006 2006 2006 2005 2004 2000 1999 1986 1971



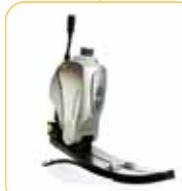
Mayo Clinic study finds two of Ossur's trauma products, the Miami J and Philadelphia Collars, superior in immobilization and reduction of pressure.



Ossur Investor Relations wins the Nordic IR Awards. Ossur's CEO Jon Sigurdsson and CFO Hjorleifur Palsson also receive the Award for Best IR Support – June 2007.



Ossur's Vice President of Research & Development, Dr. Hilmar Janusson, named by Business Week as one of the Top Ten Cutting Edge Designers of the Year – June 2007.



Ossur launched two breakthrough bionic products: the PROPRIO FOOT®, the world's first intelligent foot module, and POWER KNEE™, the world's first lower-limb-powered prosthesis.



Ossur acquires the US company Royce Medical and the UK Company Innovative Medical Products. Both Companies specialize in the field of braces and support products. Following these acquisitions Ossur's product offering and market access changed dramatically.



Ossur acquires Flex-food Inc, Pi Medical AB, Karlsson & Bergström AB and Century XXII Innovations Inc.



The Company founded in Reykjavik by Ossur Kristinsson, prosthetist, together with several organizations of the disabled in Iceland.



Forbes Magazine features Ossur in an article called "Brace Yourself". The article focused on the company's rapid growth and future product development in the area of functional bracing - November 2007.



CNN International features Ossur's POWER KNEE and PROPRIO FOOT in an article called "Building the Bionic Body" – June 2007.



Ossur acquires the Gibaud Group in France. The Gibaud Group is a local leader in the design, production, and distribution of medical devices used in non-invasive orthopaedics.



Ossur selected as one of World Economic Forum's Technology Pioneers for 2006 for Ossur's Bionic Technology, a new technology platform which pushes the boundaries of existing functional capabilities.



Ossur launches the RHEO KNEE® its first bionic product.

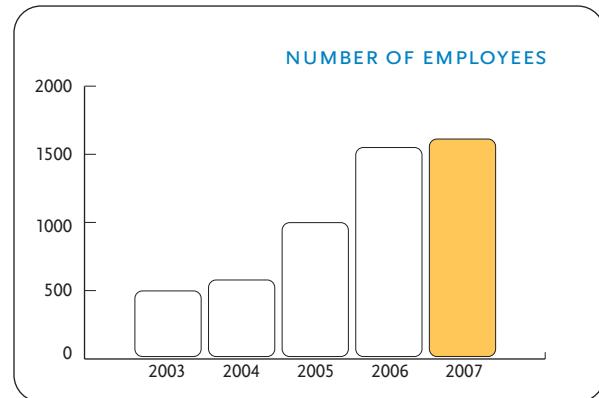
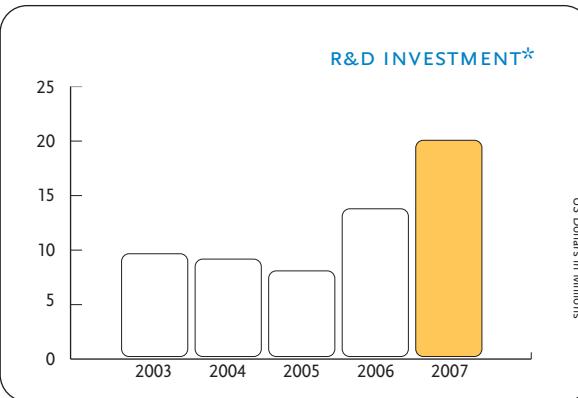
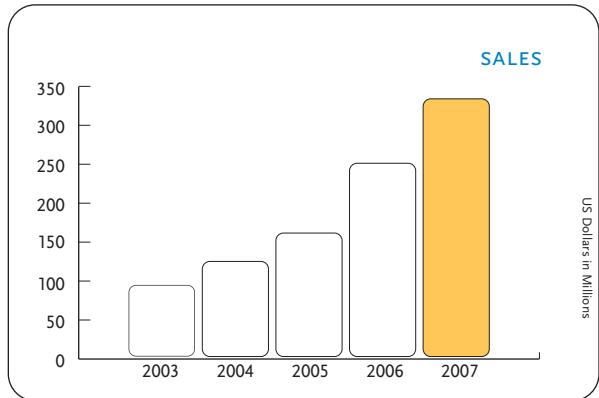


Ossur listed on the Iceland Stock Exchange.



Ossur granted its first patent.

KEY FIGURES



*According to the company's accounting policy all R&D costs are expensed.

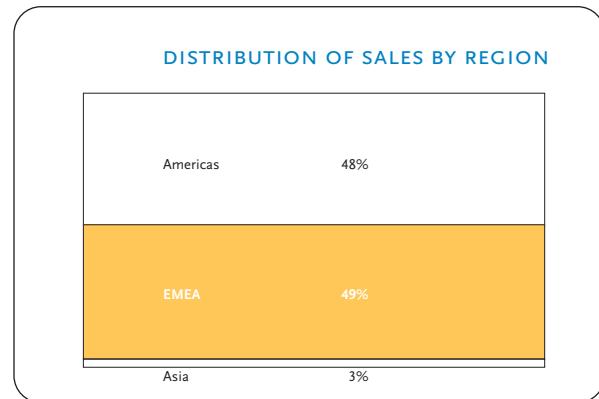
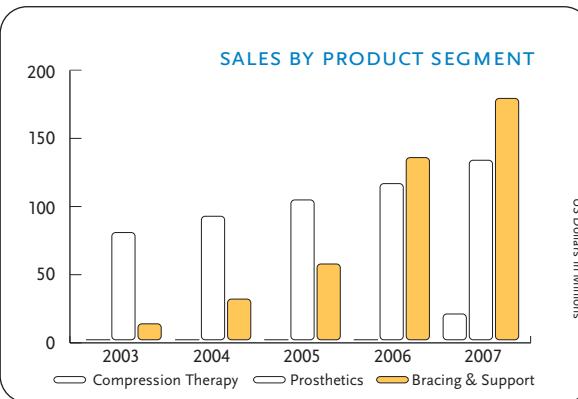
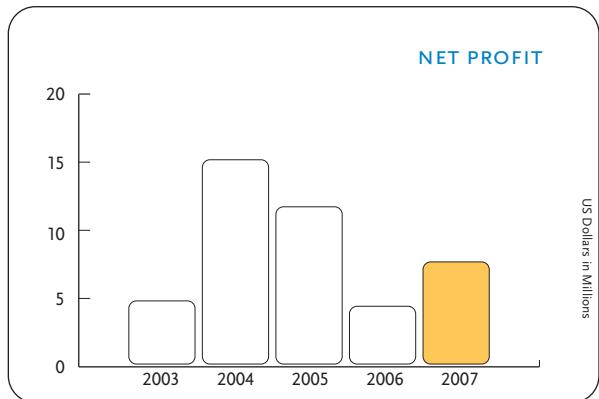


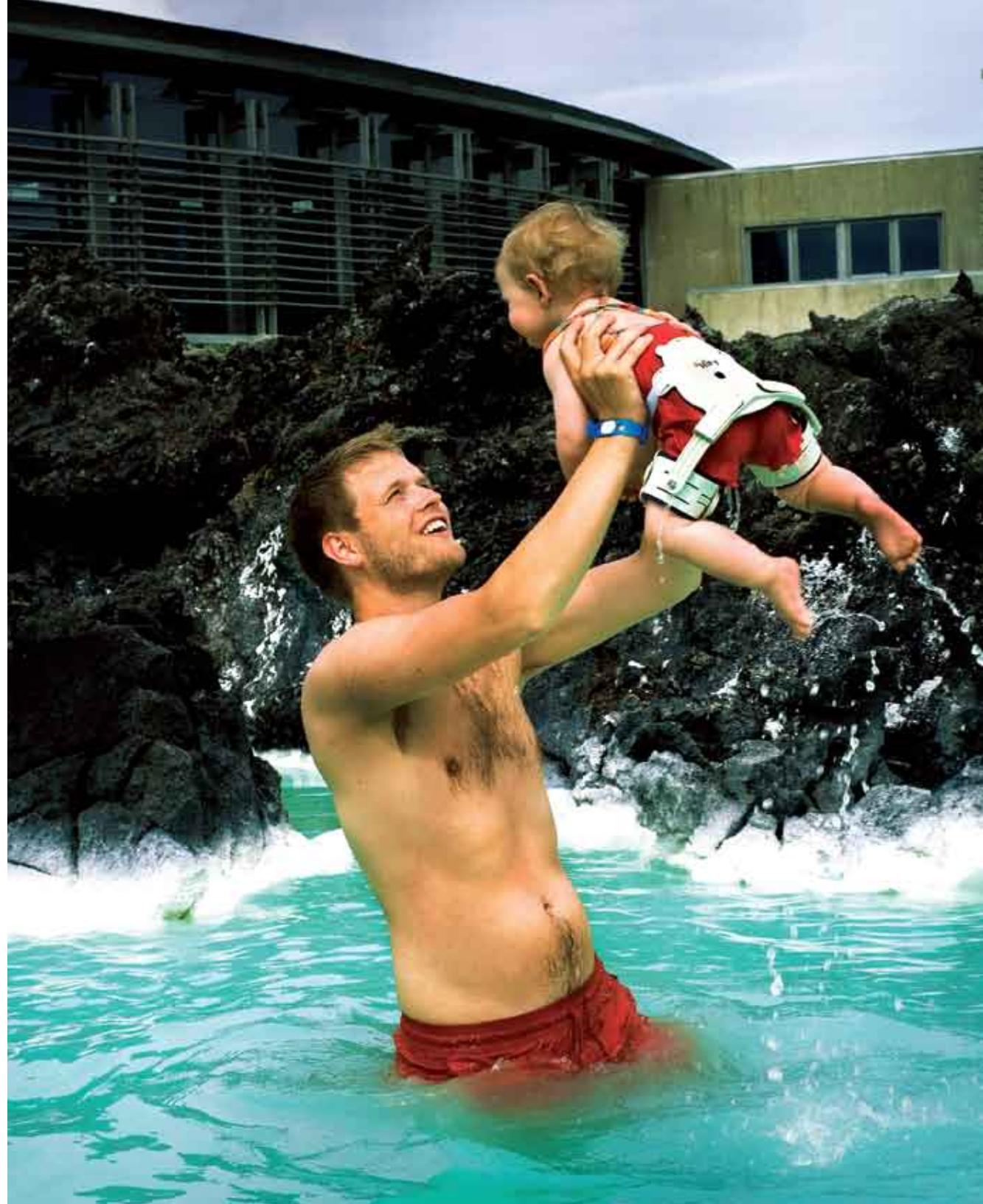
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FULL SPEED AHEAD

We at Ossur are spurred on by ambition, one of the many traits within our company culture. Our vision for the future is clear. Our rise to leadership within the prosthetic industry serves as motivation towards the Company's transformation and it is obvious that those who contribute have to do their utmost every step of the way. We are confident that we will accomplish what we have set out to do. We intend to maintain our technical leadership, achieve sales and operational cost leadership, continue consolidating through acquisitions, maintain our profitability, ensure a positive customer experience, and further the Ossur culture.

Following numerous acquisitions in 2005 and 2006, we have focused on optimizing our bracing and supports sales efforts, and strengthening our infrastructure and brand awareness within the areas of orthopaedics where we are active. We have used the year to further restructure and consolidate our organization to be better prepared for the changes we envision and to fully leverage the synergies from past acquisitions.

Ossur operates within the healthcare sector which has limited sensitivity to economic fluctuations. Our op-

erational environment is rather stable and therefore the negative developments in the financial markets last year did not have any significant impact on the underlying business of the Company.

We think of ourselves as innovation leaders. We strive to eliminate the physical limitations caused by certain disabilities and make the technology available to a larger group of people. Our design teams listen to the market demands and utilize their expertise to deliver products that fulfill the expectations of our partners, customers, and users.

We opened the Ossur Asia office in Shanghai in 2006. During that first year, our Asian team started building relationships and market knowledge and we will continue to build on the vast opportunities that are open to us there. It was a great personal pleasure for me to meet our many partners in China during the Ossur Asia inauguration ceremony last October.

I am looking forward to the Paralympic year of 2008. Ossur supports teams and athletes all over the world and I follow and admire their many achievements. I have

known some of the athletes since their childhood, like athlete Rudy Garcia-Tolson. Even as a small boy, Rudy set his mind on making the U.S. Paralympic Team. His spirit and optimism is a source of endless inspiration for everyone who has ever met him. For example last year, Rudy broke his own world record at the U.S. Paralympic Open Swimming Championships. His journey is one of the many I will be following at the Paralympics in China with great interest. Another extraordinary young athlete is Oscar Pistorius, who, on his two carbon fiber feet, has challenged the frontiers dividing disabled and able-bodied. Oscar's dream is to compete in the Olympics. Despite the recent ruling by the International Association of Athletics Federations (IAAF) banning him from competing along side able-bodied athletes in IAAF events, Ossur will continue to support Oscar's bid for equality.

Our work has, much like in previous years, not gone unnoticed in 2007 by a wide audience. In November, Forbes Magazine featured Ossur in an article focusing on the Company's rapid growth and future product development in the area of functional bracing. Our PROPRIO FOOT® won the 2007 Gold Medical Design Excellence

Award and Ossur Investor Relations won the Nordic IR Awards for the fourth time. Among the many awards and recognition we received this year, was the result of a study by the Mayo Clinic which found two of Ossur's trauma products, the Miami J® and Philadelphia Collars, superior in immobilization and reduction of pressure. Being recognized for our work in this way makes us even more determined to further improve our products and people's mobility.

Being recognized for our technological advances is both rewarding and inspiring, for this is only the start of a new era in orthopaedic design and functionality. Rest assured, Ossur intends to continue to lead the way with innovative solutions that enable people to live a life without limitations.

*Jon Sigurdsson
President & CEO*





STRATEGY - MAIN FOCUS AREAS 2008

INNOVATION

Ossur is the technical leader in the prosthetic industry and invests a record portion of sales in research and development. The Company sees value potential in the bracing and support sector and will leverage its current high-tech platform and material expertise in prosthetics to energize innovation in that segment.

ACQUISITIONS

Ossur aims to achieve its ambitious growth goals through a combination of strong organic growth while simultaneously growing through strategic acquisitions.

COST LEADERSHIP

Ossur is constantly aiming for increased efficiency in operations and will continue to seek opportunities for further optimization of manufacturing.

OSSUR CUSTOMER EXPERIENCE

Ossur's objective is to offer a high level of service, create close relationships with customers by offering value added services and deliver high quality customer education.

PROFITABILITY

Ossur aims at increasing profitability of its sales units by utilizing synergy possibilities from previous acquisitions and further increase efficiency of the Company.

OSSUR CULTURE

Ossur believes it nourishes its culture by recruiting, training, motivating and rewarding ambitious employees who challenge themselves to find more effective ways of achieving Ossur goals.



MISSION

WE IMPROVE PEOPLE'S MOBILITY

VISION

OUR VISION IS TO BECOME THE GLOBAL LEADER IN NON-INVASIVE ORTHOPAEDICS. WE WILL ACHIEVE THAT BY HAVING \$750 MILLION IN SALES AND 23% EBITDA MARGIN BY YEAR END 2010.

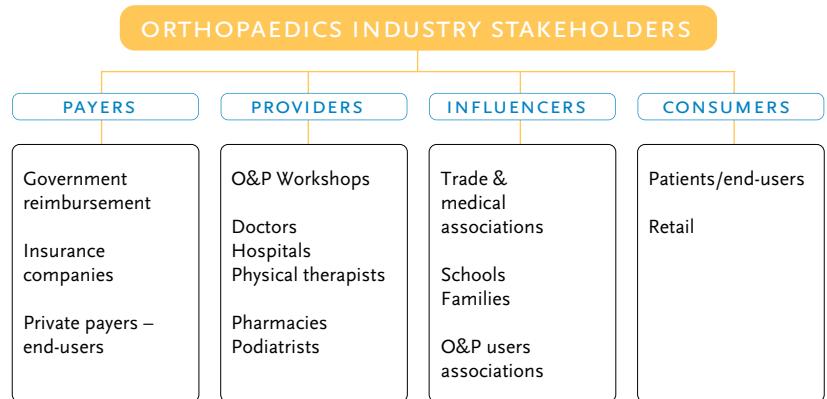
CORE VALUES

HONESTY: WE SHOW EACH OTHER RESPECT, KEEP OUR PROMISES AND ADMIT TO OUR FAILURES

FRUGALITY: WE USE RESOURCES WISELY, WE DON'T CREATE OBSTACLES AND WE DELEGATE RESPONSIBILITY TO THE APPROPRIATE PARTIES

COURAGE: WE ARE OPEN FOR CHANGE, WE TAKE RISKS AND STRIVE FOR CONSTANT IMPROVEMENTS





MARKET AND ENVIRONMENT

Ossur operates within niche segments of the \$25 billion orthopaedic industry in three markets focused on non-invasive orthopaedic products: prosthetics, bracing and supports, and compression therapy.

INDUSTRY DYNAMICS

Technological developments, demographics, lifestyle issues, and regulatory environment are industry dynamics that influence the orthopaedic market. Some of them can be influenced by the market players, such as the technological upscaling of products. Others are the result of rather complicated interactions of different stakeholders within the industry, including social and demographical changes that can have a significant impact on the market for orthopaedic products.

TECHNOLOGICAL DEVELOPMENTS

New technologies and technology combinations continuously yield improved products that offer increased quality of life and mobility to patients and users. Such technological advances lead to market growth through opening up new customer segments and stimulating demand for more technologically advanced solutions.

DEMOGRAPHICS

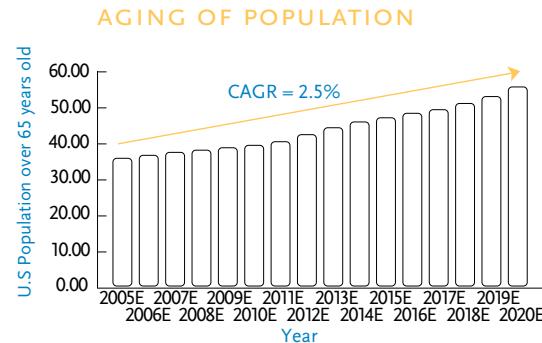
Aging population, rise in disposable income, increased social demands, and lifestyle issues are strong underlying market fundamentals in the orthopaedic industry.

The increases in the proportion of the population aged 65 and older will underpin market growth in the prosthetic industry, as an aging society brings an increase in the

frequency of vascular diseases and diabetes, which are the two main causes of amputation.

Population aging also means an increasing amount of fractures, joint instability and joint afflictions, such as osteoarthritis, increasing the demand for different forms of braces and support products, especially as US and European seniors are becoming more affluent, more informed, and showing increased awareness of the advantages of active living. The same population will furthermore drive growth for compression therapy products, as users of compression therapy solutions are primarily elderly citizens.

THE PERCENTAGE OF THE POPULATION THAT IS 65 YEARS OR OLDER IS RISING IN ALL OECD COUNTRIES, AND IS EXPECTED TO CONTINUE DOING SO. IN THE USA ALONE, THE RATIO OF PEOPLE 65 OR OLDER IS 37% AND EXPECTED TO RISE TO 55% IN 2020. IN THE EU COUNTRIES, THE INCREASE FOR THE SAME PERIOD IS FROM 36% TO 45%.



Source: *World Population Aging: 1950-2050*; United Nations' Department of Economic and Social Affairs; 2002.

LIFESTYLE ISSUES

Obesity, which can result in diabetes and other vascular diseases, is reaching epidemic proportions not only in the western world but in other countries as well. Diabetes and vascular diseases are the main causes of amputation. As the number of cases of these diseases increases so should the need for bracing and support products as well as compression therapy products.

According to the World Health Organization (WHO, Fact sheet 311, September 2006), approximately 1.6 billion adults age 15 and older were overweight and at least 400 million were obese globally. The WHO further projects that by 2015, approximately 2.3 billion adults will be overweight and more than 700 million will be obese.

Other lifestyle issues, such as increased participation of the general public in sports, driven by a more health-conscious population, and the awareness of advantages of active living, are further industry drivers. As the market for sports grows, the demand for different types of support products will continue to grow, due to the increased number of sports-related injuries and increased demand for preventive products.

REGULATORY ENVIRONMENT

Healthcare providers are often constrained by budgets, demanding cost-effective solutions without compromising quality. This has led to substantial investments in systems demonstrating and providing a cost-benefit analysis for potential buyers. Two vital requirements for any market player in the orthopaedics

industry are the ability to be constantly alert to a changing regulatory environment and the ability to adapt the product offerings to the prevailing regulatory system.

PROSTHETIC MARKET

Prosthetics refers to the branch of medicine that deals with the production and application of artificial limbs. The prosthetic segment focuses on servicing individuals who have experienced some form of amputation.

ABOUT THE MARKET

Ossur estimates that the total size of the US and European markets for prosthetic products is about \$600 million, growing annually at about 3-5% per year. The US and the European markets are accounting for sales of approximately \$300 million each. The Asian market is

DRIVERS AND RESTRAINTS IN BRACING AND SUPPORT, PROSTHETIC, AND COMPRESSION THERAPY MARKET:

DRIVERS:

- Aging and more active population
- Increased instances of obesity
- Increased health awareness and demand for higher quality of life
- Increased acceptance of private pay
- Acceptance of bracing and supports as a preventive and post-operative solution
- Minimal side-effects of non-invasive treatments, such as compression therapy and stronger emphasis on prevention

RESTRAINTS:

- Efforts to hold back growth in healthcare expenditure
- Advances in vascular surgery
- Easily accessible pain medication as alternative to braces and supports; poor reimbursement structures; improved invasive procedures
- Lack of awareness among physicians of the advantages of compression therapy

large and diverse although it is in many places much less developed and more obscure than the US and European ones. Nevertheless, Ossur believes that it offers significant opportunities for the Company in the future.

The main players in the prosthetic market are Otto Bock and Ossur. The segment can now be described as being largely consolidated.

REIMBURSEMENT

Prosthetic products are as a rule reimbursable, but reimbursement policies vary from country to country. Approximately 98% of prosthetic products from Ossur are reimbursable.

DISTRIBUTION

Prosthetic products are distributed through orthopaedic and prosthetic (O&P) workshops.

BRACING AND SUPPORT

Orthopaedic braces and supports are used for a number of both prophylactic and therapeutic purposes, including protection from injury and post-operative protection to help recover from a ligament operation. Braces and support products are mainly used for recovery from sports-related injuries in all age groups, protection from injury in the aging and active segment of the population, and to an increasing extent also in the treatment of obesity patients.

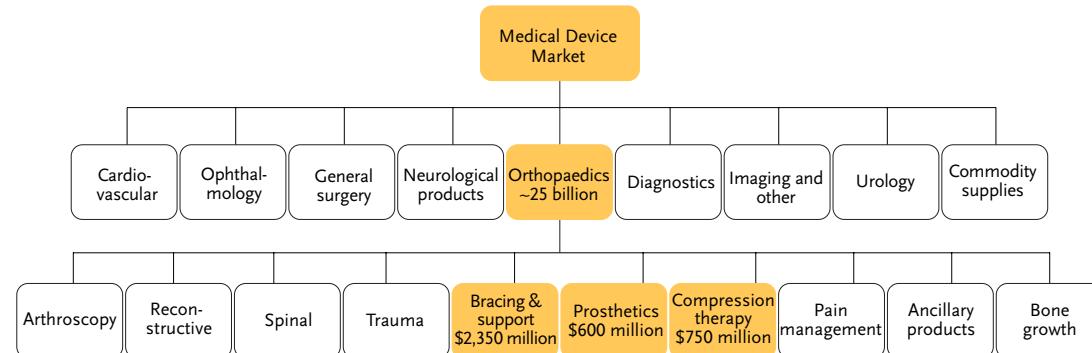
ABOUT THE MARKET

Frost & Sullivan estimate the total size of the bracing and support market in Europe and the USA to have been approximately \$2.1 billion in 2006, growing annually in the medium term of 5 to 6 years at about 3-5% per year. As the F&S report is published in 2006 the strengthening of the Euro against the US dollar in 2007 affects the estimated market share in Europe. The market in the USA is by far the largest one, and should be

approximately \$1.6 million in sales in 2007, and Europe \$0.75 billion taking currency effects into account. The market is fragmented, particularly in Europe, where the top five companies hold less than a 50% market share. The Asian market is large and diverse, although it is in many places much less developed and more obscure than the US and European markets.

The main competitors in the US market are DJO, EBI Medical and DeRoyal. Those companies, like Ossur, generally have a comprehensive product offering. The market for braces and support products remains very competitive and Frost & Sullivan estimates that more than 67 manufacturers are supplying products to the market, the vast majority of which are small niche players with a focused product offering. A significant change in the competitive landscape occurred in 2007 when Reable (Blackstone) acquired DJO and merged with Encore, creating by far the biggest player in the US market.

GLOBAL ORTHOPAEDIC MARKET



Source: Frost & Sullivan and management estimates

The European market is characterized by local players with relatively strong market positions in their respective home markets. Frost & Sullivan has identified more than 50 companies operating within the market in Europe, of which the vast majority is only active in a single market, with a focused product offering. The main competitors in Europe are Bauerfeind and Thusane.

REIMBURSEMENT

Braces and support products are either prescription or non-prescription based products. Prescription based products are as a rule reimbursable, while simple soft good products are not.

DISTRIBUTION

Simple non-prescription products that do not need fitting by a certified professional are sold through retail outlets.

Prescription products that require fitting by certified professionals are sold through various channels such as O&P

workshops, orthopaedic surgeons, podiatrists, physical therapists, hospitals, pharmacies, and athletic trainers.

COMPRESSION THERAPY (PHLEBOLOGY)

Compression therapy is a preferred treatment for venous ulcers and oedema that has been used for more than a century. It involves the application of external pressure on the vascular elements to assist in pumping blood back to the heart. Compression therapy is most relevant for the elderly population.

ABOUT THE MARKET

The compression therapy market has enjoyed steady growth in recent years. According to Frost & Sullivan, the total market for compression therapy products amounted to approximately \$750 million in 2006, the US market to approximately \$530 million and the European market to approximately \$220 million. The market is expected to grow at around 8% per annum in 2005-2012.

Germany and the UK are the largest European markets for compression therapy products. The main market players include BSN-Jobst, Medi, and Bauerfeind. In USA, the main market participants are BSN-Jobst, Medi, Sigvaris and SAI.

REIMBURSEMENT

The level of reimbursement of compression therapy products differs between markets. In Europe, compression therapy products are as a rule reimbursable, while in the US there is hardly any reimbursement. As with other segments of the healthcare market, there is pressure on total expenditure and reimbursement is under pressure.

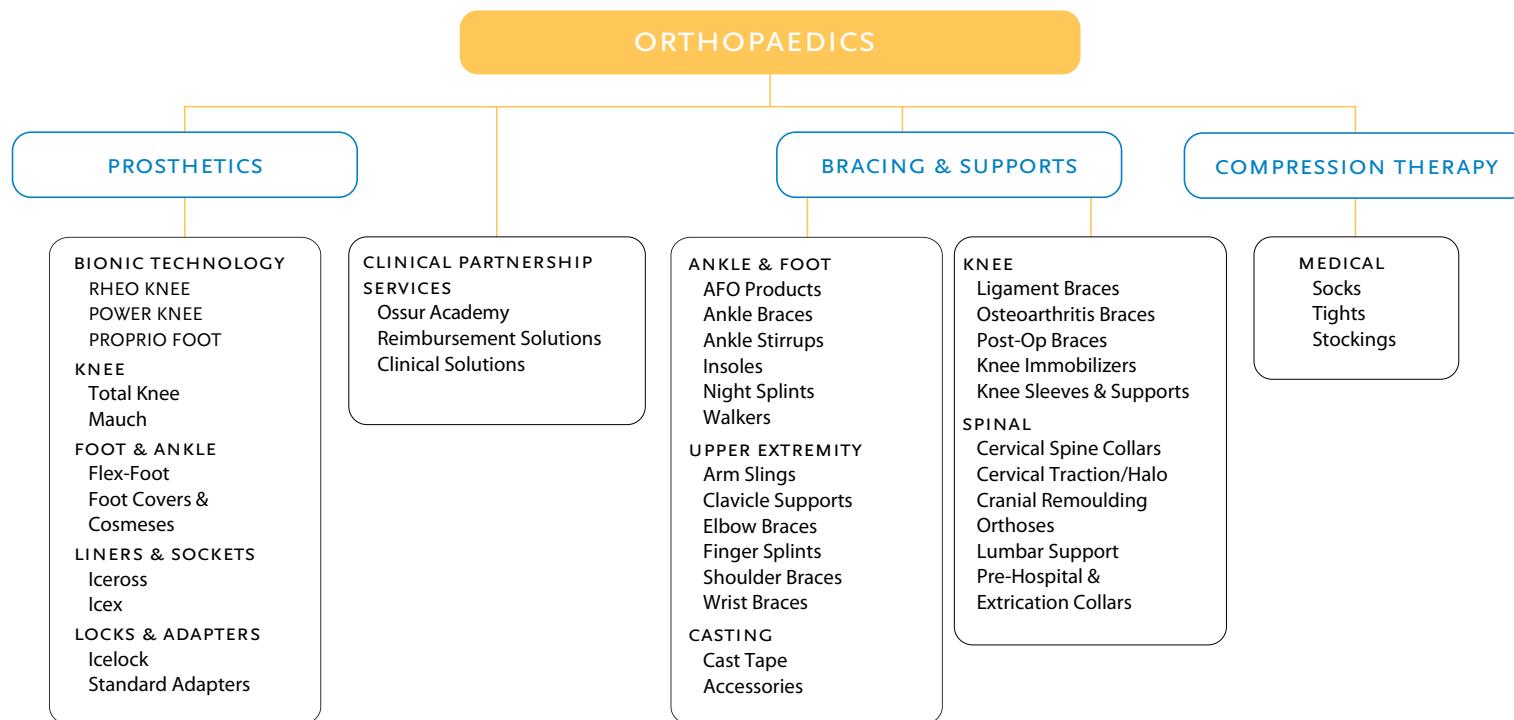
DISTRIBUTION

Compression therapy products are sold mainly through hospitals and pharmacies.



PRODUCTS

OSSUR OFFERS ITS CUSTOMERS RESPONSIVE, COMFORTABLE PRODUCTS WHICH IMPROVE MOBILITY AND THE QUALITY OF LIFE. THE COMPANY'S ABILITY TO DEVELOP HIGHLY INNOVATIVE PRODUCTS WITH GREAT CLINICAL OUTCOMES HAS DERIVED FROM ITS CONSISTENT PARTNERSHIP APPROACH, ITS ATTENTION TO THE NEEDS OF ITS CUSTOMERS AND ITS PROACTIVE COLLABORATIONS WITH THE BEST MINDS IN ITS FIELD.



OPERATIONS

Ossur is a global non-invasive orthopaedics company and a leader in the development, manufacturing, distribution, sales, and marketing of bracing and support products and prosthetics. In 2006, the Company entered the compression therapy segment with the acquisition of the French company Gibaud. Ossur is known for pioneering, award-winning designs and places great emphasis on continuous research and development and partnerships with health professionals in order to deliver successful clinical and business products and services. The Company's overall aim is to be the principal source of innovative non-invasive orthopaedic products, enabling people to live a life without limitations.

Ossur's strategy is focused on maintaining its leading position within prosthetics and becoming a top-tier player within the bracing and support field of orthopaedics. The Company aims to leverage its high-tech platform and other product know-how into orthopaedics, by utilizing the Company's existing resources and expertise on a larger scale. Ossur is focused on attracting highly qualified employees to key positions as well as utilizing the Company's access to industry specialists.

The year 2007 was characterized by strong organic growth in prosthetics and restructuring of the bracing and support sales channel in the US. The total sales amounted to USD 335.6 million representing a growth of 33%. Organic sales growth was 7%. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to USD 64.4 million or 19.2% of sales and increased by 24.9 million or 63% from 2006.

Sales growth in prosthetics continues to exceed the market growth and was 13%. This confirms Ossur's strength in this market segment and technical leadership. In 2007 bionic sales accounted for 10% of the total prosthetic sales. Sales growth in braces and support, including Gibaud and Somas, was 34% measured in USD

FUTURE VISION

Ossur's vision is to be a leader in the orthopaedics industry. For many years, Ossur has been a leading company in the design and manufacture of prosthetics and intends to attain the same status in the larger field of non-invasive orthopaedics. The Company's long term goal is to expand the business up to 750 million USD in sales by the end of 2010 and the EBITDA to 23%.

IN 2007, THE TOTAL SALES AMOUNTED TO USD 335 MILLION, GROWING BY 33% COMPARED TO 2006. THE SPLIT BETWEEN THE COMPANY'S MAJOR MARKETS WAS CLOSE TO EVEN AS AMERICAS ACCOUNTED FOR 48% AND EMEA 49%. THE ASIA UNIT ACCOUNTED FOR 3%.

To be able to reach this ambitious goal, Ossur will need to continue to acquire companies. The market Ossur operates in is very fragmented, especially in Europe, leaving many opportunities for consolidation.

ORGANIZATIONAL STRUCTURE

Ossur is an Icelandic limited liability company with its headquarters in Reykjavik, Iceland. The Ossur Consolidation has subsidiaries in eight countries: Ossur EMEA with offices in the UK, the Netherlands and Sweden, Gibaud in France, Ossur Asia in China and Australia and Ossur Americas in the US and Canada.

The Company's executive management is located in Iceland, as is the majority of R&D, a large part of the production, and all corporate finance activities.

Ossur Americas is responsible for sales in North America, Canada and Latin America. Ossur EMEA is responsible for sales in Europe, including the Nordic region, the Middle-East, and Africa. Ossur Asia is responsible for sales in Asia and Australia.

GUIDANCE 2008
SALES \$360–365 MILLION
EBITDA \$67–70 MILLION

The production and assembly of the prosthetic products takes place in three locations: at Ossur Americas in California, where assembly of prosthetic feet is carried out; in Michigan, where prosthetic knees are manufactured; and at Ossur hf. in Iceland, which manufactures liners, prosthetic feet, bionic products and components.

Custom made braces and supports are manufactured at Ossur Americas in California and cervical collars are produced in New Jersey, whilst almost all other production of off-the-shelf products is outsourced to Asia.

Localized marketing, sales, distribution, and services are handled by the sales offices: Ossur Americas Inc. in California, Ossur Canada Inc. in Canada, Ossur Europe B.V. in the Netherlands, Ossur UK in the UK, Ossur Nordic AB in Sweden, Gibaud in France, and Ossur Asia in China and Australia.

OSSUR AMERICAS

In 2007, Ossur Americas, total sales amounted to USD 162 million, accounting for 48% of the total sales.

The US operation is in charge of sales, marketing, manufacturing, distribution, and services on the North and South American continents. The operation sells directly to prosthetists, orthopaedic surgeons, hospitals, and clinics. In North America, Ossur also distributes its products with SPS (Southern Prosthetic Supply), one of the United States' largest distributing companies. Ossur has an agreement with Hanger Orthopedic Group, the largest network of O&P workshops in the US, on the sale of Ossur products in Hanger-owned workshops.

Highlights of the year

- Strong growth in prosthetics- well above industry average; bionic product line made a significant part of total sales
- Following acquisitions in 2005 and 2006, the braces and supports division went through a major restructuring of its sales channel. It is organized in three parts, set up for growth in following customer segments: Sports Medicine & Extremity, Trauma & Spine, Podiatry & Retail
- Operational processes were further improved with key focus on projects intended to enhance the customer experience

OSSUR EMEA (EUROPE, MIDDLE EAST AND AFRICA)

In 2007, Ossur EMEA's total sales amounted to USD 163 million USD, accounting for 49% of the total sales. Ossur EMEA is responsible for sales, marketing, distribution and services in Europe the Middle-East and Africa. Gibaud SAS, a leading French company in bracing and compression therapy products, was acquired in December 2006 and serves as an entrance platform into France and South Europe. The largest markets in EMEA are the UK, France, Germany and the Nordic region.

Highlights of the year

- Brand transition from recently acquired UK company Medistox to Ossur completed and product rationalization on track, connecting UK with global product lines
- The first year of Gibaud within the Ossur Consolidation
- Nordic has build up a strong sales channel in braces and supports
- Central Europe: exceptional growth in prosthetics, harvesting from restructuring in 2006
- Strong customer focus

OSSUR ASIA

The Company established a new subsidiary in Asia in September 2006, Ossur Asia, which is located in Shanghai. In 2007, Ossur's sales in Asia amounted to USD 10 million accounting for 3% of the total sales. Ossur Asia includes general administration, sales and marketing, and other operational functions. In addition an R&D team is working from the Shanghai office. Its market spans from Pakistan to New Zealand with key focus markets currently being Japan, Australia, China, Korea and Taiwan. The Asia strategy of Ossur is supposed to support growth, outsourcing and manufacturing activities in the region and to tap into resources of well educated technical resources to build future technical platforms. Shanghai is centrally located in the region with good infrastructure in a rapidly growing medical market.

During this first year of operation, the Asia unit has set up all basic administrative functions like Finance, HR, IT support, and customer service.

Highlights of the year

- Registration of a medical trading company in China granted
- New distribution partners in Australia
- Consolidation of businesses in the region, new consolidated product catalogue and price strategy introduced
- Shared services for global manufacturing established
- His Excellency President of Iceland Mr. Grimsson attended the Ossur Asia inauguration and celebration of the first year of operation in Shanghai
- First R&D projects handed over from the Shanghai R&D team

MANUFACTURING & OPERATIONS

Ossur is constantly aiming for increased efficiency and its overall strategic goals include ambitions for cost leadership within the orthopaedics industry. Three main focus areas to maintain a good manufacturing unit are highly motivated and skilled employees, a good planning process and up to date and appropriate proprietary manufacturing technology and equipment.

M&O LOCATIONS AND MAIN ACTIVITIES:

- **Reykjavik:** Manufacturing of all prosthetic products, except for the mechanical knee line, and distribution to Ossur sales offices
- **Eindhoven:** B2B distribution and overall management of EMEA distribution
- **Uppsala:** Distribution for Scandinavia and the Baltic countries
- **Blackburn:** Local distribution within the UK
- **Saint-Étienne & Trevaux:** Manufacturing and distribution of the Gibaud bracing and support products in Saint-Étienne. Manufacturing of compression therapy products in Trevaux
- **Albion, Michigan:** Manufacturing of the mechanical knee product line
- **Aliso Viejo, California:** Distribution of prosthetics
- **Foothill Ranch, California:** Ossur's main custom manufacturing site. Off-the-shelf products coming from Asia are shipped to Camarillo and Paulsboro
- **Camarillo, California:** Main west coast distribution for bracing and supports
- **Paulsboro, New Jersey:** East coast distribution and manufacturing of spinal products
- **Richmond, Canada:** Custom made braces and distribution for Canada



Ossur continues to build on the know-how and expertise Royce Medical developed in production processes for outsourcing to subcontractors. Know-how in this field is very valuable, and Ossur intends to leverage those strategic advantages going forward. The Company believes that the combination of state of the art R&D function, low-cost production and a highly effective sales team will make the company highly competitive for years to come.

Ossur outsources some of its manufacturing to Asia. In order to maximize quality and minimize production costs, Ossur works closely with each of its subcontractors, by regularly reviewing their processes and ensuring that quality requirements are met. In 2007, around 27% of the Company's production was outsourced to Asia.

R&D AND PRODUCT DEVELOPMENT

Ossur's strategy is to be a source of innovative, high-quality, non-invasive orthopaedic products and services. The Company has always seen R&D as essential to future development and is determined to maintain its technological competency through investment in research and development activities. In 2007, Ossur's investment in R&D amounted to 6% of the Company's total sales, which is in line with the company's goal of 6-8% annual investment in R&D.

To maintain the highest level of innovation, Ossur plans to continue its cooperation in research projects with universities and research companies. The company believes that maintaining the company's current momentum, as well as continuing the R&D at its current pace, places the company at the forefront of innovation. All of Ossur's internal R&D investments continue to be expensed as incurred through the profit and loss statement.

Currently, Ossur operates five R&D departments which are located in four countries and employ a total of 76 people. Each of these departments is strategically located close to Ossur's marketing and/or manufacturing units, and is focused on R&D within a particular product family.

- Reykjavik, Iceland: R&D executive management and prosthetic development, product management and quality department
- Foothill Ranch, California: Bracing and support development and product management
- Camarillo, California: Bracing and support products
- Uppsala, Sweden: Ossur CAD system
- Shanghai, China: Bionics and outsourcing

CORPORATE FINANCE

Corporate Finance is responsible for the overall finance administration of the consolidation. Within corporate finance are human resources, global marketing, IT, corporate development, and treasury and accounting.

- **Human Resources:** Responsible for creating and maintaining corporate HR strategy
- **Corporate Accounting:** Responsible for preparation of financial statements, management reporting, budgeting and planning
- **IT:** Responsible for global IT strategy and services to all Ossur subsidiaries
- **Global Marketing:** Responsible for the Ossur Brand, the global marketing strategy and customer focus
- **Corporate Development & Treasury:** Responsible for the management of all acquisitions projects and potential targets, corporate treasury strategy, and Investor Relations

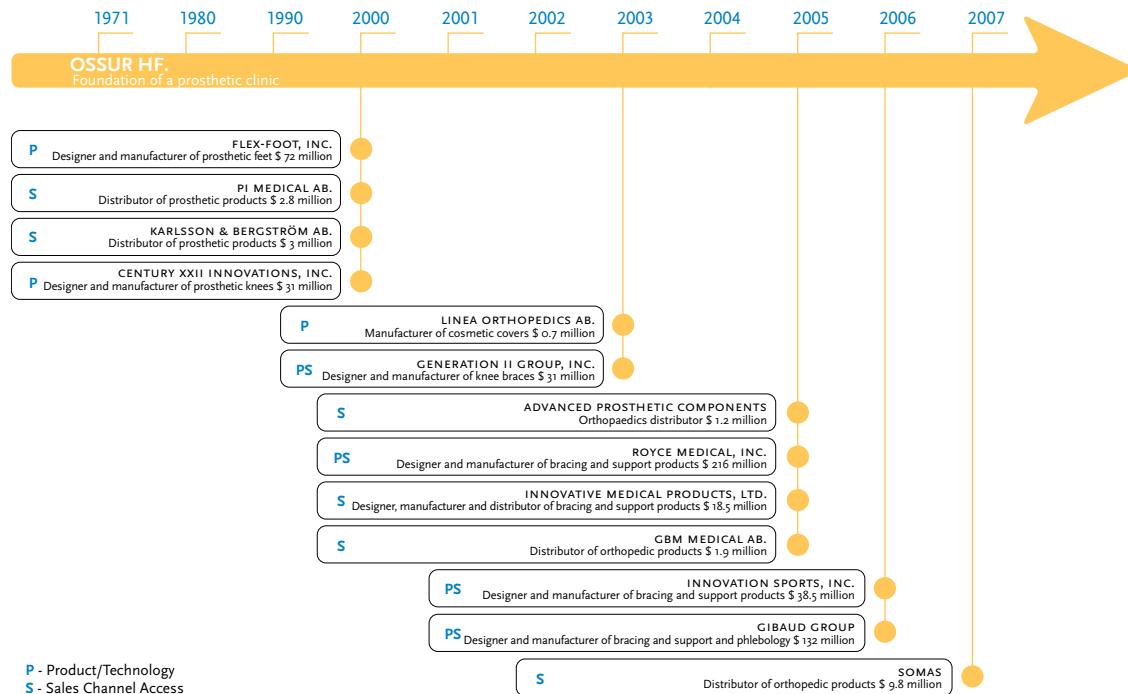
ACQUISITIONS

Since 2000, Ossur has acquired 13 companies and fully integrated all of them, except for Gibaud. The acquisitions in 2000 were in the prosthetics segment of orthopaedics, making Ossur a global player in that field and the second largest prosthetic company in the world. The following acquisitions have been in the bracing and support segment of orthopaedics, making Ossur today the third largest player in that field.

The acquisitions are in line with Ossur's overall acquisition strategy and ambition of becoming a top player in non-invasive orthopaedics, specializing in prosthetics and the bracing and support segment of the industry.

To reach the ambitious goals set for 2010, growing the sales of the Company up to USD 750 million, Ossur needs to continue seeking new acquisition targets and intends to do so.

ACQUISITION HISTORY





BRACING & SUPPORTS

THE DEVELOPMENT OF THE OSSUR BRACING AND SUPPORTS PRODUCT RANGE COMBINES SOME OF THE MOST EFFECTIVE TECHNOLOGIES AVAILABLE TODAY WITH OVER 30 YEARS OF DESIGN EXPERIENCE AND A BROAD KNOWLEDGE OF BIOMECHANICS. OSSUR OFFERS A COMPREHENSIVE LINE OF PRODUCTS FOR THE ANKLE, FOOT, AND KNEE AS WELL AS THE NECK AND SPINE. IN ADDITION, THE PRODUCT OFFERING INCLUDES SLINGS, SUPPORTS, SPLINTS AND BRACES FOR THE UPPER EXTREMITIES.

ANKLE & FOOT SUPPORTS

The Ossur range of prefabricated foot and ankle products resolves a wide variety of biomechanical problems – from ankle instability to foot misalignment.

KNEE BRACES

Ossur's osteoarthritis knee braces offer a non-invasive, economical treatment option that is scientifically proven to relieve pain and improve mobility. Many people suffer unnecessarily from knee pain due to osteoarthritis (OA), a degenerative joint disease characterized by breakdown of the joint's cartilage that cushions the bones of the knee. Ossur's Unloader brand is a well established leader in OA bracing segment.

Ligament braces: Ossur offers a wide range of options to stabilize, protect and/or rehabilitate knees. The Company's ligament brace lines include custom braces and easy-to-fit prefabricated knee braces. The CTi® brand is a world known brand, especially in the motorcross field.

Post-operative braces: Post-operative braces allow initial immobilization of the knee joint and can easily be converted to allow a full range of motion.

WALKERS

Walkers are an alternative to short leg casts, primarily applied to treat soft tissue injuries, stable fractures and post-operative therapy. They are easy to apply and modify. The company also offers several varieties of walkers specially designed to care for diabetic patients with foot ulcers.

ANKLE BRACES AND SUPPORTS

Ankle braces and supports are designed to provide warmth, compression and support for mild to moderate ankle strains and sprains. Ossur's wide range of braces is designed to provide a personal fit for various injuries, allowing patients to continue with daily activities.



FORM FIT®



MIAMI J®



UNLOADER® ONE

NIGHT SPLINTS

Night splints provide relief to patients experiencing heel pain due to plantar fasciitis. The Form Fit® technology provides variable padding thickness for comfort and fit.

UPPER EXTREMITY SUPPORT PRODUCTS

WRIST BRACES

Included in the upper extremity product lines are the Form Fit and Exolite® solutions. The Form Fit brace offers a one-piece moulded pad, providing variations in padding thickness for high comfort, functionality and durability. The Exolite provides treatment of carpal tunnel syndrome by using patented technology to increase comfort and functionality.

THUMB SPICAS

Thumb spicas provide immobilization and protection for thumb injuries and disorders. By taking advantage of Form Fit technology, Ossur has brought out a product line for this particular segment with the Form Fit thumb spicas.

NECK & SPINE SUPPORT PRODUCTS

BACK SUPPORTS

The Company offers four different product lines in back supports: Thera Back®, Tri Back®, Form Fit Back Support® and Airform Inflatable Back Support®. The Thera Back provides adjustable fit and employs air pressure to help relieve back pain and provide additional support. The Tri Back support has breathable mesh material, combined with supportive elastic configuration that can also incorporate gel therapy if desired. The Form Fit back support utilizes Form Fit technology in offering a compression-formed lumbar pad providing a firm and comfortable fit. Finally, the Airform Inflatable Back Support is a lumbar support brace with an adjustable air bladder for custom fit and compression in the lumbar area.

CERVICAL DEVICES

Ossur offers a comprehensive line of advanced c-spine stabilization devices to address the specialized requirements of the patient and the caregiver at

every phase along the continuum of care. Ossur's market-leading cervical collar line includes the Miami J® collar and the Philadelphia collar.

CASTING & SPLINTS

CASTING TAPE

Techform® casting tape is comprised of a patented, high action resin and fiberglass fabric that creates a cast. For physicians and technicians, the cast is easy to work with, and for patients the main attributes are high strength and good durability.

SPLINTING

The Techform splint is an upper extremity splint. It comes in a single, pre-cut and pre-shaped pattern that can be formed into a thumb spica splint, a short arm splint or other configurations.



COMPRESSION THERAPY

OSSUR ENTERED THE COMPRESSION THERAPY SEGMENT WITH THE ACQUISITION OF THE FRENCH LEADING COMPANY, GIBAUD. COMPRESSION THERAPY PRODUCTS ARE MARKETED UNDER THREE BRANDS: VENACTIF, OLYMPIQUE AND PCTA. THERE ARE SEVERAL DEGREES OF COMPRESSION, FROM CLASS I TO CLASS III IN STANDARD RANGE. CLASS IV IS MADE-TO-MEASURE FOR PARTICULAR CASES OF LYMPHOEDEMA. THE GIBAUD PRODUCTS BELONG TO CLASSES I, II AND III AND INCLUDE: BANDAGES, TIGHTS, STOCKINGS, KNEE-HIGHS AND STUMP SOCKS.



COMPRESSION BANDAGES

The Phlebogib® Graduated Venous Compression Bandage provides compression and is often preferable to stockings or tights when high pressures are needed or when dressings are present. The Cohegib® self adhesive elastic tape maintains and supports the joints and provides muscle compression in association with cold therapy in the acute phase of injury as well as holds dressings in place.

SUPPORT TIGHTS, STOCKINGS AND SOCKS

Gibaud markets various types of support tights, stockings and socks to treat varicosities, varicose veins and oedema. In order to guarantee therapeutic function with an appealing aesthetic design, the production of compression therapy items requires the use of innovative techniques and textiles. Textiles such as the finest Egyptian cotton, soft microfibers and durable Spandex are combined in a seamless knitting technique making it possible to create socks, tights and stockings that meet patients' growing needs. Patients demand products that are lightweight, sheer, and offered in various colors and styles for both men and women. Technological progress has also made it possible to create products that are more comfortable as well as being easier to use and apply by combining various areas of compression within the same product.

RESEARCH AND DEVELOPMENT

Ossur's strategy is to be a source of innovative, high-quality orthopaedics products and services. R&D is essential to the future development of the Company and it is determined to maintain its technological competency through investment in research and development activities. This ratio is significantly higher than industry standards, particularly in the bracing and support sector. The Company's policy is to invest 6-8% of its annual sales income on product research and development. Ossur feels that this ratio underlines clearly its determination to secure its organic growth through the continuous introduction of new products with a mix of in-house R&D efforts and development partnerships with third parties.

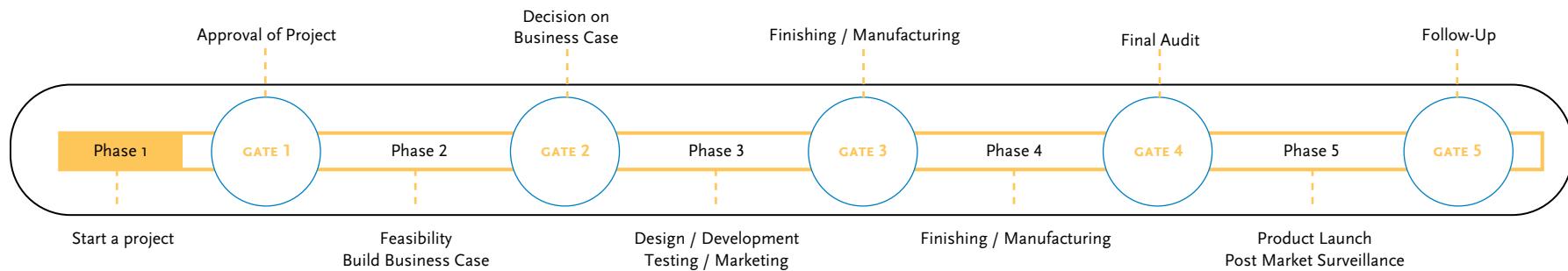
DESIGN PROCESS

Ossur develops products using a five-stage design process which provides a standardized methodology for project management and ensures a quality outcome, shortening the time to market. In moving through the design process, new products must fulfil defined criteria and pass certain milestones before entering into the next design phase. By structuring the design process this way, Ossur ensures that a product launch is commercially viable. Whether applied to in-house development or cooperation projects, the process remains effective and transparent, delivering products that suit medical needs of users and offer evidence to prove their efficiency.

IN 2007, OSSUR'S INVESTMENT IN R&D AMOUNTED TO USD 20 MILLION USD, WHICH CORRESPONDS TO 6% OF TOTAL SALES OF THE COMPANY.

One of Ossur's goals is to secure the organic growth of the Company through the continuous introduction of new products. For this purpose, Ossur combines in-house R&D and know-how with development partnerships with third parties, including universities and research companies. Examples of products which originated in such co-operations are RHEO KNEE and POWER KNEE. RHEO KNEE, the world's first microprocessor knee and one of Ossur's best known products, is a product of a co-operation between Ossur's experts and the Media Lab at the Massachusetts Institute of Technology (MIT). POWER KNEE is a result of the cooperation between Ossur and Victhom Human Bionics.

DESIGN PROCESS



TECHNICAL PLATFORMS

THE COMPANY'S R&D EFFORTS PRIMARILY FOCUS ON FURTHER DEVELOPING ITS TECHNICAL PLATFORMS, GIVING A PROPRIETARY, COMPETITIVE ADVANTAGE IN THE FIVE AREAS THAT OSSUR DEFINES AS CORE COMPETENCIES WITHIN THE COMPANY: SILICONE MATERIAL, CARBON FIBER COMPOSITES, PRECISION METAL MACHINING, BIONICS AND BIOMECHANICS. THE EXPERTISE IN THESE AREAS, ACQUIRED DURING YEARS OF R&D IN THE PROSTHETICS FIELD, HAS BEEN UTILIZED IN EXPANDING THE BUSINESS INTO OTHER FIELDS, SUCH AS BRACING AND SUPPORTS AND WOUND CARE. THIS R&D POLICY HAS REMAINED LARGELY UNCHANGED FOR THE LAST FEW YEARS, ALTHOUGH INCREASED FOCUS ON THE BRACING AND SUPPORT SECTOR AND RECENT ENTRY INTO THE COMPRESSION THERAPY SECTOR HAS ADDED NEW DIMENSIONS.

SILICONE MATERIAL

- One of the most bioinert materials available
- Ossur's silicone blends are specially formulated to provide the right level of softness and strength to suit users' individual needs
- Ossur has been using silicone in prosthetic liner design for over 20 years. In recent years, silicone expertise has been utilized in other applications, such as braces and wound care

CARBON FIBER COMPOSITES

- Extremely strong, lightweight and flexible material, extensively used in the aerospace industry
- Ossur's carbon composite production is automated, based on advanced technology and a modern and dynamic manufacturing process
- Carbon fiber composites are used in over 650 different combinations of carbon fiber prosthetic feet, as well as ankle-foot orthoses

PRECISION METAL MACHINING

- Nine different mechanical knee systems, as well as a wide variety of components made of lightweight, strong and durable alloys
- Functional design and advanced control systems

BIOMECHANICS

- Combining biomechanical understanding, materials expertise and engineering in designing state of the art bracing and supports products
- Holistic approach in product design to meet the need for comfort, functionality and pain management

BIONICS

- Application of engineering systems, especially electronic systems to the study of biological principles to design lost functions of the body
- Restoring the anatomical function displaced by amputation by using intelligent structures in products that can respond in a human-like way



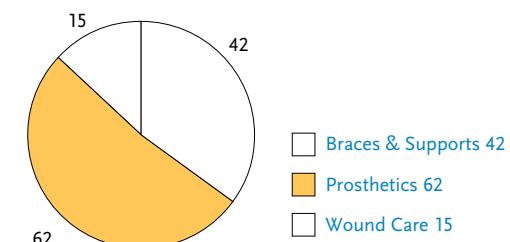
INTELLECTUAL PROPERTY PATENTS

Ossur's policy is to actively protect its intellectual property rights, generated through in-house innovation, acquisitions and user licences, by filing relevant patent applications and prosecuting these to obtain patent protection in all the geographical regions which the company considers to be its key markets. Ossur's patent portfolio is well diversified and representative of the business areas within the orthopaedics industry in which Ossur operates. In 2007, 22 US patents were granted to Ossur and 37 new applications filed. At the end of the year, Ossur had 214 US and 106 international patents in its portfolio, together with 119 US and 239 pending applications worldwide. The lifespan of a patent for a particular invention is 20 years from the filing date of the patent application. The average remaining lifetime of Ossur's patents is around 10 years.

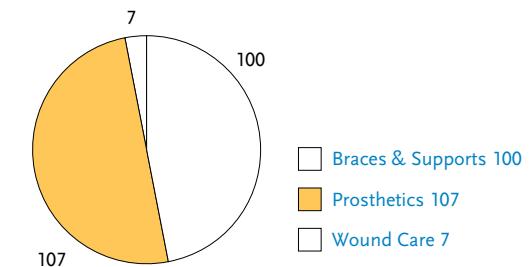
TRADEMARKS

Ossur has a strong brand name within the orthopaedics industry which is associated with quality and innovation and which is strongly attached to its products. Maintaining and preserving its brand is therefore very important for Ossur, and the Company seeks trademark protection for its brands. At the end of 2007 the Company had a total of 131 registered trademarks in the United States and 7 registrations pending, along with 238 trademark registrations in selected markets, such as Europe, China, Japan, Australia, and Canada.

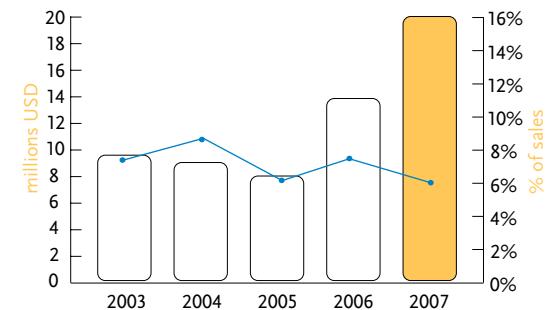
PENDING US PATENTS



ISSUED US PATENTS



R&D INVESTMENT



AWARDS AND RECOGNITION IN 2007

Ossur has been the proud recipient of a number of awards over recent years. The recognition of Ossur's technological advances is both rewarding and inspiring, for this is only the start of a new era in orthopaedic design and functionality.

2007 HIGHLIGHTS

- Mayo Clinic experts found two of Ossur's trauma products, the Miami J and Philadelphia Collars, superior in immobilization and reduction of pressure after a two year study.
- Forbes Magazine featured Ossur in an article called "Brace Yourself". The article focused on the company's rapid growth and future product development in the area of functional bracing - November 2007
- A distinguished panel of judges awarded Ossur's PROPRIO FOOT® with a unique Innovation Award at the ninth international ORPROTEC tradeshow in Valencia, Spain - November 2007
- Ossur's RHEO KNEE® won its first Central European award, named as one of the six top products recognized by the Czech Ministry of Health - October 2007
- Following a private share placement, Ossur welcomed Denmark's largest pension fund, ATP, as the fifth largest shareholder in the company - October 2007
- Ossur Asia celebrated its first year of operation in Shanghai, China - October 2007
- Ossur's PROPRIO FOOT® won the 2007 DaVinci Award - September 2007
- Ossur's Bionic Technology presented at the Looking into the Future of Technology Forum at United States Patent and Trademark Office - June 2007

Ossur's Bionic Technology platform and other innovations are the result of significant and ongoing investment in research and development.

- Ossur Investor Relations won the Nordic IR Awards. Ossur's CEO Jon Sigurdsson and CFO Hjorleifur Palsson also received the Award for Best IR Support – June 2007
- CNN International featured Ossur's POWER KNEE™ and PROPRIO FOOT in an article called "Building the Bionic Body" – June 2007
- Ossur's Vice President of Research & Development, Dr. Hilmar Janusson, named by Business Week as one of the Top Ten Cutting Edge Designers of the Year – June 2007
- Ossur's PROPRIO FOOT received the 2007 Gold Medical Design Excellence Award presented by Canon Communications – June 2007
- Team Ossur member Oscar Pistorius received high profile media attention during his first visit to Ossur Americas. Oscar was featured on ESPN, ABC Evening News and Good Morning America – June 2007
- Ossur's design expertise featured in the Icelandic Contemporary Design Exhibit being held from May-September as part of the Reykjavik Art Festival – Summer 2007
- Ossur's PROPRIO FOOT nominated for the Icelandic Visual Arts Award for its exceptional design – May 2007
- Team Ossur members Sarah Reinertsen and Oscar Pistorius featured in separate articles in The New York Times - May 2007
- Team Ossur member, Oscar Pistorius, was featured in an in-depth article in WIRED Magazine - March 2007





BIONIC TECHNOLOGY BY OSSUR

BIONIC TECHNOLOGY BY OSSUR INCORPORATES BIOLOGICAL PRINCIPLES TO THE STUDY AND DESIGN OF ENGINEERING SYSTEMS. IN THE FIELD OF PROSTHETICS, ELECTRONIC AND/OR MECHANICAL COMPONENTS ARE INTEGRATED, WITH THE AIM TO REPLACE AND ENHANCE ANATOMICAL STRUCTURE OR HUMAN PHYSIOLOGICAL PROCESSES. APPLICATION OF A SYNTHESIS OF MECHANICS AND ELECTRONICS ALLOWS MIMICKING OF NATURAL SENSORY AND MOTOR CONTROL FUNCTIONS. THE BIONIC PROSTHETIC LIMB BECOMES AN INTEGRATED EXTENSION OF ITS USER. THE RESULT IS A REPPLICATION OF PHYSIOLOGICAL FUNCTION THAT IS NATURAL, RELIABLE, COMFORTABLE AND OPTIMIZED FOR THE INDIVIDUAL USER.





RHEO KNEE[®]

The first product developed by Ossur within the Bionic product category was the RHEO KNEE - the world's first microprocessor swing and stance knee system to utilize the power of artificial intelligence. Capable of independent thought, it learns how the user walks, recognizing and responding immediately to changes in speed, load and terrain. This results in the users quickly regaining confidence as their ability to walk at any desired speed and traverse any terrain is restored.



PROPRIO FOOT[®]

Another member of Ossur's Bionic family is the world's first intelligent foot module, the PROPRIO FOOT. It provides unprecedented physiological benefits for below-knee amputees. A wide and automated range of ankle flexion with proven Flex-Foot dynamics means function is as close as to the human foot as possible today.

The PROPRIO FOOT thinks for itself, responding beautifully to changing terrain and transforming the approach to stairs and slopes, as well as level-ground walking. Angling itself appropriately, it also helps amputees to sit and stand up easily and more naturally. The PROPRIO FOOT has calibrated alignment control feature. Overall, the effect is a more balanced, symmetric and confident gait with reduced wear and tear on the back, hips and knees.



POWER KNEE[™]

The next step in Ossur's bionic technology platform is POWER KNEE - it works as an integrated extension of its user, synchronizing motion with that of the sound leg. It offers unprecedented levels of functionality and performance. It replaces true muscle activity to bend and straighten the knee as required.

When walking on level ground, the user is gently propelled forward, allowing greater distances to be covered without becoming as tired as before. On stairs and inclines the knee actively lifts the user up the next step, producing a secure and natural ascent, foot over foot. By gathering sensory information one step ahead of the prosthesis, the POWER KNEE is unique in its ability to anticipate and proactively provide the function appropriate to daily activities. The POWER KNEE is the result of a development partnership with a Canadian company, Victhom Human Bionics Inc.

HUMAN RESOURCES

A progressive high-tech company needs outstanding employees in all departments of the business. It is necessary to attract ambitious people and offer challenging projects and a working environment which supports each team in achieving their goals. Ossur offers an immense number of challenging projects, every day new projects are created, and our employees constantly need to be aware of the latest update in their field of expertise to maintain the status as top players in our sector.

One of the major challenges for a company in a global business is to create an environment where employees feel they are working as one team towards the company's goals. Employees should be encouraged to work closely with their colleagues wherever situated in the world.

CORE VALUES

Ossur's core values are Honesty, Frugality and Courage. One of the fundaments for successful cooperation is that all employees honour the core values in their relations with colleagues as well as customers. The core values should be reflected in the daily work of the employees to ensure sound business practices that maximize the probability of the Company's success.

HONESTY: WE SHOW EACH OTHER RESPECT, KEEP OUR PROMISES AND ADMIT TO OUR FAILURES

FRUGALITY: WE USE RESOURCES WISELY, WE DON'T CREATE OBSTACLES AND WE DELEGATE RESPONSIBILITY TO THE APPROPRIATE PARTIES

COURAGE: WE ARE OPEN FOR CHANGE, WE TAKE RISKS AND STRIVE FOR CONSTANT IMPROVEMENTS

The Ossur Culture is characterized by initiative, ambition, drive and cooperation. In an environment of fast growth and development, mistakes can be expected. However, emphasis is laid on employees admitting their mistakes in order to learn from them. Ossur has managed to create such an atmosphere within the Company and it is the responsibility of the Company managers to encourage the employees to maintain this atmosphere.

Ossur places great emphasis on having the employees understand the Company's vision and future prospects as well as its products.

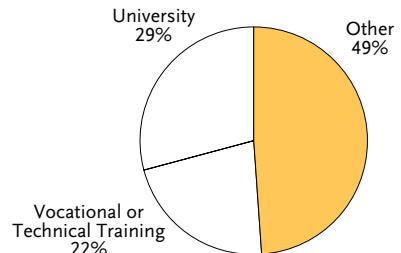
In recent years, resources have been spent to build a powerful intranet at Ossur. Ossur Plaza contains extensive information about the Company and its products, information on employee benefits and services. Plaza

is a common workplace, where sharing of documents and information is easy, which is very important for the cooperation between Ossur's many locations.

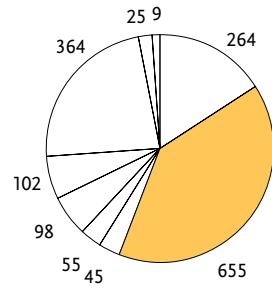
NUMBER OF EMPLOYEES

The number of employees at year end was 1617

EDUCATION/QUALIFICATION

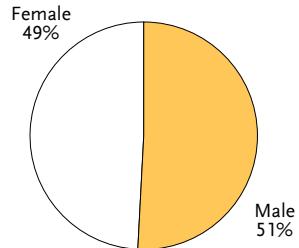


NUMBER OF EMPLOYEES BY REGION



- Iceland 264
- North America 655
- Canada 45
- Sweden 55
- UK 98
- Holland 102
- France 364
- China 25
- Australia 9

GENDER RATIO







PROSTHETICS

YEARS OF EXPERIENCE IN MATERIALS TECHNOLOGY AND DESIGN HAVE HELPED OSSUR DEVELOP PROSTHETIC SYSTEMS PROVIDING COMFORT AND FUNCTION. OSSUR'S PROSTHETIC PRODUCT LINES HAVE A FULL SPECTRUM OF PREMIUM LOWER LIMB PROSTHETIC COMPONENTS, DESIGNED TO REFLECT THE INDIVIDUAL NATURE OF USERS.



MAUCH® KNEE



VARI-FLEX®



ICEROSS® SYNERGY

KNEES

Ossur offers a full mechanical knee range comprised of 9 different types of knees. Two well-known names in the prosthetic field belong to Ossur's knee solutions. Mauch® and Total Knee®, both established prosthetic knee brands. The uniqueness of the Total Knee is in the "locking moment", which keeps the knee from collapsing when it is at full extension and in its polycentric design that imitates natural knee motion. Mauch's progressively designed hydraulic systems provide amputees with a less strenuous and more controlled means of ambulation on varied terrains and in sports activities. Mauch Knee has recently been redesigned, using advanced manufacturing and materials technologies. The new version is slim, with improved reliability and durability, offering versatile function especially over varied terrain and stairs.

FEET

The design of Flex-Foot® prosthetic feet, combined with the strength and flexible properties of carbon fiber, has permitted amputees to walk with a gait indistinguishable from a natural gait and has enabled athletic amputees to break world records and achieve athletic results comparable to those of able-bodied athletes. The main features of Ossur's own carbon composite production are automation, advanced technology and a modern and dynamic manufacturing process designed to improve quality, reduce cost and improve R&D flexibility. Ossur offers approximately 650 different combinations of feet, depending on functionality, category, build-height and activity to suit the individual needs of users.

LINERS

Iceross liners are made of proprietary silicone blends for security, durability and comfort. Silicone is one of the most bioinert materials available, making it the material of choice in numerous medical applications. Ossur silicone blends are specifically formulated to provide the right level of softness and strength to suit users' individual needs. The design of Iceross liners for amputees stabilizes soft tissues and reduces stretching, making them comfortable to wear. Ossur offers 700 different types of liners of different shapes, sizes, stiffness ingredients and functionality.

In addition to the actual prosthetic components, Ossur offers a comprehensive line of prosthetic accessories, such as foot covers, socket materials, locks and adapters.

INFRASTRUCTURE

QUALITY SYSTEM

As a healthcare company, Ossur complies with various legal requirements, and all processes and documentation needs to be of a high standard. Since 1993, Ossur operates with a certified quality system. The Company places great emphasis on quality, and being a manufacturer of medical device products, it is very important to be able to expand the scope of the quality system in line with the enactment of new laws and regulations as well as the growth of the Company.

Through acquisitions in the past, quality and the eventual objective for all Ossur establishments to operate under a quality system has been one of the most important tasks. The majority of the operations are already in compliance with ISO 9001:2000 and ISO 13485:2003.

The quality requirements imposed on Ossur are strict, as the Company's products are classified as medical devices. All Ossur products are CE-labelled to meet the requirements of the European Economic Area, and in the United States, they meet FDA standards.

THE ENVIRONMENT

Ossur pursues a policy of sound environmental practice in recycling and disposal of hazardous waste. All waste is sorted and recycled when possible. Materials which cannot be recycled, or which are classified as hazardous waste, are appropriately handled and disposed of in full compliance with applicable regulations.

COMMUNITY RESPONSIBILITY

Ossur recognizes its responsibility to conduct activities in a socially responsible manner to improve the communities we operate in.

Ossur's values (Honesty, Frugality and Courage) are a strong foundation for the spirit within the Company. The values are the guidelines for how we want to behave and build up a company, with employees who are responsible citizens and good representatives of the Company. Through a combination of community support, educational programs, and the dedication to help others, Ossur ensures that its efforts towards community responsibility have a positive impact.

Since 2003, Ossur has provided the Prosthetic Education Program at the California State University in Dominguez Hills with teaching facilities to enable the University to continue to offer this program.

Ossur is made up of passionate, ambitious people, eager to help those who live with disabilities. The Company's motto: Life Without Limitations is much more than a marketing slogan. It is a vision that the employees share within a dedicated and caring Company.

As a leading non-invasive orthopaedic manufacturer, it is our responsibility and privilege to support the industry and to serve patients and practitioners in every way we can. In fulfilling this mission, we believe it is our obligation to provide not only world-class products, but also support those relying on them.



OSSUR PARTNERS WITH A GREAT VARIETY OF BOTH LARGE AND SMALL ORGANIZATIONS, AND CONTINUALLY EXPLORES FURTHER POSSIBILITIES FOR PARTNERSHIPS. THESE ARE A FEW OF OSSUR'S LARGER PARTNERS:

- .. AMPUTEE COALITION OF AMERICA (ACA)
- .. CHALLENGED ATHLETES FOUNDATION (CAF)
- .. AMERICAN ORTHOTIC AND PROSTHETIC ASSOCIATION (AOPA)
- .. AMERICAN ACADEMY OF ORTHOTISTS AND PROSTHETISTS (AAOP)
- .. CALIFORNIA STATE UNIVERSITY DOMIN-GUEZ HILLS
- .. ICELAND SPORT ASSOCIATION FOR THE DISABLED

TEAM OSSUR

Team Ossur is a special group of people that the Company is proud and honoured to share its name with. The Team comprises elite international athletes and sporting role models, along with gifted performers and professionals from around the world.

The talents and charisma of these exceptional individuals help to bring the achievements and potential of all amputees to the forefront of public awareness. Ossur is delighted to recognize their work and to sponsor and support them in their constant pursuit of life without limitations.

In 2007, a number of Team Ossur members achieved their goals and received deserved attention at various events. Oscar Pistorius is one of those extraordinary individuals. Oscar's goal is to compete against able-bodied athletes at the Olympic Games. The International Association of Athletics Federations (IAAF) recently banned Oscar from competing in its events on the basis that his prosthetic feet, made by Ossur, gave him a technical advantage. Ossur adamantly disagrees with this ruling and continues to support Oscar in his quest for equality.

CORPORATE GOVERNANCE

In line with the Company's core values of honesty and courage, Ossur is focused on benefiting from the advantages of good corporate governance practices. The framework for the Company's corporate governance practices is described below. It is laid out by the Company Law respecting Public Limited Companies, the Company's Articles of Association, Rules of Procedure of the Board of Directors, Rules for Issuers of Securities listed on The OMX Nordic Exchange, and the Icelandic Guidelines on Corporate Governance, discussed below on a comply or explain basis.

SHAREHOLDERS MEETINGS

The supreme authority in all affairs of the Company is in the hands of lawful shareholders' meetings. A shareholders' meeting is valid, regardless of attendance, if the meeting has been legally convened. At shareholders' meetings each share carries one vote. Shareholders, shareholders' proxies, the Company's auditors, and the CEO are entitled to attend shareholders' meetings. Decisions at shareholders' meetings are taken by majority vote, unless otherwise provided for in Statutory Law or the Articles of Association.

The Annual General Meeting is convened with not less than two weeks' notice and not more than four weeks' notice. The notice includes descriptions of prepared proposals. The Annual General Meeting shall be held before the end of June each year. During recent years, the Annual General Meeting has been held in February.

BOARD OF DIRECTORS

The Board of Directors of the Company is the supreme authority in the affairs of the Company between shareholders' meetings. The Board is responsible for the organization of the Company and for ensuring the proper conduct of its operations at all times. The Board of Directors shall decide all matters regarded as extraordinary or of major consequence. The Board shall establish goals for the Company, in accordance with the Company's objectives, and shall formulate the policy and strategy required to achieve these goals. The Board shall also monitor whether the CEO prepares and carries out a business strategy which is consistent with the established targets. The Board assesses continuously whether the capital and share structure are in the interest of the shareholders.

The Board is composed of five members, who are elected at the Annual General Meeting for a term of one year. A Board member shall only act according to his own conviction. Members of the Board shall elect a chairman and vice-chairman from their own ranks. The signatures of a majority of the members of the Board are required to bind the Company. Only the Board may grant powers of procurement.

The Chairman of the Board of Directors of the Company shall represent the Board in all matters of the Company, unless otherwise decided by the Board. The Chairman, together with the CEO, is also responsible for the external relations of the Company in accordance with Company traditions and circumstances, at any time. In the event that the Chairman is unable to attend to his duties due to absence, the Vice-Chairman shall take his place.

The Chairman of the Board of Directors shall normally represent the Company's interests in associated companies in which the Company owns shares. The CEO shall normally act as Chairman in the Company's subsidiaries which are connected with the sales and manufacturing

ON THE COMPANY'S AGM ON THE 22 FEBRUARY 2008, THE BOARD OF DIRECTORS OF OSSUR HF. WILL PROPOSES THAT SHAREHOLDERS RESOLVE TO REVISE THE COMPANY'S ARTICLES OF ASSOCIATION. THE OBJECTIVE OF THE REVISION IS TO MODERNIZE THE COMPANY'S ARTICLES AND ALIGN THEM WITH CURRENT WORDING OF COMPANY LAW. KEY SUGGESTIONS ARE THAT THE BOARD OF DIRECTORS IS TO BE AUTHORISED TO CHANGE THE SHARE CAPITAL CURRENCY FROM ISK TO FOREIGN CURRENCY AND THAT THE NUMBER OF BOARD SEATS CHANGES FROM FIVE TO FOUR-TO-SEVEN. THE BOARD ALSO PROPOSES THAT IT WILL BE AUTHORISED TO HAVE SHAREHOLDERS MEETINGS, FULLY OR PARTLY, INTERNET BASED IN ADDITION TO NEW WORDING TO REFLECT THAT THE COMPANY'S SHARES ARE CURRENTLY ISSUED ELECTRONICALLY.

activities of the parent company in Iceland and overseas, and those which are connected with the core activities of the parent company. In other subsidiaries, the Chairman of the Board shall act as Chairman, or as further decided by the Board of Directors.

A quorum is reached on the Board when a majority of Board members is present, provided that such meeting has been lawfully convened. Important decisions, however, may not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. All matters brought before a Board meeting shall be decided by majority vote. In the event of a tie vote, the Chairman of the Board shall cast the deciding vote.

Board Members and the Chief Executive Officer shall not take part in any process of negotiation between the Company and themselves, lawsuits brought against themselves, or negotiations between the Company and any third party or lawsuits against any third party, in which they have a substantial interest which may be contrary to the Company's interests. Board Members and the CEO are under obligation to report such incidents.

Any agreements which a Board Member or the CEO may enter into with the Company, and any agreements between the Company and a third party, must be submitted to the Board of Directors for approval (or rejection), if the Board Member or the CEO have a substantial interest in such agreements which conflict with the Company's interests.

The Chairman of the Board shall speak for the Board with regard to the CEO. The CEO shall attend Board Meetings and shall have the right to speak and to submit proposals, unless otherwise decided by the Board in individual cases.

The Board operates in accordance with Rules of Procedure of the Board which have been tailor-made to the Board. The Rules are revised annually.

CEO

The Board shall appoint a chief executive officer (CEO) to manage the Company's daily operation. The CEO shall ensure that the accounts of the Company conform to the law and accepted practices, and that the disposal of the property of the Company is secure. The Board shall monitor whether the CEO prepares and carries out



a business strategy consistent with the established targets. The Board may entrust the Chairman of the Board with negotiations with the CEO regarding his salary and other terms of employment.

The CEO shall, at Board Meetings, submit a report outlining in broad terms the Company's most significant activities. At Board Meetings, the Board of Directors may require the CEO and other key employees of the Company to provide Board Members with any information and documents necessary for them to perform their tasks.

The CEO shall consult with the Chairman of the Board in matters concerning contracts with third parties when such matters do not fall within the CEO's terms of reference. However, such contracts shall always be made subject to the approval of the Board of Directors of the Company, unless otherwise decided by the Board.

INTERACTION BETWEEN MANAGEMENT AND SHAREHOLDERS

Ossur is dedicated to having an ongoing interaction between the management of the Company and its shareholders in terms of the strategy and operations of the Company. Through its website, investor presentations and meetings and Annual General Meetings, the management continuously informs the shareholders of the Company's status and plans. The Board has adopted internal guidelines for the timely disclosure of material news. Most public announcements and news items are published in both Icelandic and English. However, certain information is only published in English. The

Company's Annual Report contains both numerical and non-numerical information. The Company's Investor Relations function is easily accessible to all shareholders. Ossur applies international financial reporting standards (IFRS) and publishes quarterly financial reports. An annual calendar has been established with a view to ensure timely reporting by the Executive Management.

AUDITORS AND ACCOUNTING

An auditing firm shall be elected at the Annual General Meeting for a term of one year. The auditor, however, shall not be a member of the Board of Directors, CEO, or employee of the Company. The auditors are not allowed to own shares in the Company.

The auditor shall examine the Company's annual financial statements in accordance with generally accepted accounting standards, and shall, for this purpose, inspect account records and other material relating to the operation and financial position of the Company. The auditor shall at all times have access to all books and documents of the Company.

The elected chartered accountant of Ossur hf. is Deloitte hf., national ID 521098-2449, address: Smáratorg 3, 201 Kópavogur. Auditors on their behalf are Sigurdur Pall Hauksson, certified public accountant, born in 1968, and Thorvardur Gunnarsson, certified public accountant, born in 1954. Deloitte hf. has been Ossur's auditor since the Company's foundation in 1971. Mr. Gunnarsson and has acted on its behalf since 2001 and Mr. Hauksson since September 2006.

INSIDER INFORMATION

In accordance with statutory law, the Company complies with the rules of The Financial Supervisory Authority on the handling of inside information and insider trading. The job and functions of an appointed Compliance Officer, who monitors and supervises the handling of insider information, is a part thereof. Ms. Sigurborg Arnarsdottir has been the Company's Compliance Officer since 2002.

The Company follows a set of rules on the handling of inside information and insider trading. They stipulate that a Primary Insider may not trade in the securities of the Company during the period from the end of a financial period until financial reports are disclosed, regardless of whether the Primary Insider possesses inside information or not. However, such a period shall not be longer than four weeks.

GUIDELINES ON CORPORATE GOVERNANCE

As a listed company on the OMX Nordic Exchange Iceland, the Company takes into consideration the Guidelines on Corporate Governance for Icelandic limited liability companies and explains any points of divergence (comply or explain). The Guidelines were compiled by the Icelandic Chamber of Commerce, OMX Nordic Exchange Iceland and the Confederation of Icelandic Employers.

Below is the core list of the best practices guidelines and the Company's position, which is reviewed on a regular basis, as necessary:

- All persons elected as Directors must possess the necessary qualifications to be able to fulfill their duties as Directors and be able to devote the time required by such duties. It is important that Directors be aware of the obligations which their position entails.

Board Members are elected by the Annual General Meeting for a term of one year and shall qualify in accordance with the Act respecting Public Limited Companies. In a notification about candidature for the Board of Directors, there shall be quoted information about main occupation, other Directorships, education, experience and holdings of share capital in the Company shall be listed. Interest links with the principal business parties and competitors of the Company as well as with shareholders holding over 10% share in the Company must also be disclosed. The Company's Board of Directors shall check the notifications of candidature and decide upon the validity of candidature subject to the final decisive power of the shareholders' meeting in case of dispute.

A brief summary of the background of Ossur's members of the Board of Directors can be found on page 40.

- The Board must adopt written rules on working procedures, which specify the role of the Board and the implementation of its tasks.

The Board has established its most important tasks through the Rules of Procedure of the Board. The rules describe, among other things, the allocation of responsibility within the Board, representation of the Board,

agenda and procedures of board meetings, obligation of confidentiality, instances of disqualifications, and signature of the Company's statements, as previously discussed in this chapter. The rules are continuously reviewed and upgraded when necessary.

- It is important that the Board receives regular information from the CEO to enable it to perform its duties. The manner in which such information disclosure shall be affected must be specified.

An agenda for Board meetings is sent to all Members of the Board prior to any board meeting. The CEO attends all such meetings and provides the Board with information outlining in broad terms the Company's activities. According the Board's Rules of Procedure, at board meetings, the Board of Directors may require the CEO and other key employees of the Company to provide Board Members with any information and documents necessary for them to perform their tasks.

- The Board should preferably assess regularly its own work, working methods and working procedures, and the Company's performance, with the assistance of external parties, if appropriate.

The Chairman continuously assesses the working methods and procedure of the Board in cooperation with other Members of the Board. The Board has not requested the assistance of external parties in such assessment but does not rule out such a process in the future.

- Preferably, the majority of the Directors should be independent of the Company, cf. the definition in [...the Guidelines]. Furthermore, at least two of the Directors should preferably be independent of major shareholders in the Company.

As of the date of this report, three Members of the Board, Mr. Kristjan Ragnarsson, Mr. Sigurbjorn Thorkelsson and Mr. Ossur Kristinsson, are independent of major shareholders.

According to the Guidelines, a major shareholder is any party controlling at least 10% of the Company's total share capital, either singly or acting in concert with related parties. It should be noted that Mallard Holding S.A., owned by Mr. Ossur Kristinsson and his family, controls 8,87% of the Company's total share capital.

- The Board itself shall assess whether a Director is independent of the Company and give an account of its conclusions in the Company's annual financial statements or annual report.

Such an assessment procedure has been approved, in an upgrade of the Rules of Procedure of the Board, effective from February 2007.

- To make the work of the Board more effective, it may be suitable to establish certain sub-committees of the Board. The Board shall appoint the Directors to take part in and chair the committees. The annual report should give an account of the members of each sub-committee.

In light of the concentrated number of board seats, and the balanced and relevant expertise and experience of the current Members of the Board, such committees have not been established. This decision is subject to continuous re-evaluation.

THE REMUNERATION POLICY OF OSSUR HF.

The Board of Directors of Ossur hf. shall approve the Company's general remuneration policy concerning wages and other payments to the CEO, other senior Officers of the Company as well as its Directors. The policy describes whether and to what extent the Company compensates these parties in addition to basic wage. The

remuneration policy shall be approved by the Company's shareholders during the Annual General Meeting. Such an approval is binding for the Board of Directors to the extent that it relates to compensation which is linked to the development of shares in the Company. In other respects, the remuneration policy is guidance for the Company's Board of Directors.

During the Annual General Meeting the Company's Board of Directors shall give an account of the remuneration of the Company's Officers and Directors and the estimated costs on account of the right of share purchase options and explain the implementation of a previously approved remuneration policy. In case the Company's Board of Directors has deviated from the remuneration policy, this shall be substantiated in the Minutes of the Company's Board of Directors.

THE REMUNERATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The remuneration of the Board of Directors is decided at the Annual General meeting for the previous term and the remuneration of the CEO is decided by the Board of Directors. No dividends, loans, or commitments have been extended to these persons. The numerical detail on Remuneration of the Board of Directors and the Executive Board is in a table below.

Ossur hf. Annual Reports, Articles of Association and Rules of Procedure of the Board of Directors is accessible on the Company's web site.

Board of Directors	Position	Remuneration USD	Number of shares	Share options	Financially linked parties	Notes
Niels Jacobsen	Chairman of the Board	50,000	144,952,402	0	0	Holdings of William Demant
Þórður Magnússon	Vice Chairman of the Board	30,000	84,040,215	0	8,456	Holdings of Eyrir Invest
Össur Kristinsson	Board Member	65,409	37,526,769	0	0	Holdings of Mallard Holding
Kristján Tómas Ragnarsson	Board Member	20,000	569,539	0	4,250	
Sigurbjörn Þorkelsson	Board Member	20,000	528,184	0	0	
CEO and Executive Management						
Jón Sigurðsson	CEO	978,083	24,458,841	1,250,000	3,234	
Hilmar Janusson	VP of Research & Development	349,801	3,660,347	308,000	0	
Hjörleifur Pálsson	CFO	346,236	1,000,000	308,000	0	
Egill Jónsson	VP of Manufacturing and Operations	316,075	18,499	308,000	4,250	
Árni Alvar Arason	President of Ossur Asia	315,380	2,124,450	308,000	0	
Eyþór Bender	President of Ossur Americas	353,020	2,027,900	308,000	0	
Ólafur Gylfason	Managing Director of Ossur EMEA	294,180	476,368	308,000	0	

THE REMUNERATION POLICY OF OSSUR HF.

In accordance with Article 79.a. of the Act respecting Limited Liability Companies No. 2/1995

- It is the policy and priority of Ossur hf. to attract and retain exceptional employees. In order to achieve this, the Company must have in place a competitive compensation structure in each of its operations. This remuneration policy is designed and implemented to ensure the alignment of interest of the long-term shareholders of Ossur hf. and its employees and other stakeholders, in a principled, simple, and transparent way.
- In addition to base salary, Ossur hf. (the “Company”), provides employees with necessary working equipment. The Company compensates managers and employees with other payments, reimbursements and other rewards including:
- Performance-linked payments and benefits. The Company can pay bonuses that reflect individual contribution to the Company’s projects, specific divisions or the Company as a whole. Managers will also be provided with vehicles in few exceptional cases.
- With share options. The Board of Directors of Ossur hf. (the “Board”) can offer employees share options in the Company. The strike price of such share options agreements shall never be below the market prices of the Company’s shares at the time of issuing. All share option agreements offered to the managers of the Company will be laid before a shareholders’ meeting for approval. Ossur’s annual report always discloses the share options held by managers and members of the Board. The Board can in exceptional circumstances provide the Com-

pany’s managers with sales rights on their options of shares in the Company.

- Ossur hf. does not provide managers or other employees with loans or guarantees in relation to purchase of shares in the Company, as authorized in the 2nd paragraph of Article 104 in the Act respecting Public Limited Companies, or for other purposes, except in exceptional circumstances. Such instances are always subject to the approval of the Board.
- Ossur hf. pays the employer’s share to pension funds for employees in accordance with applicable laws and general labour contracts. The Company does not enter into special pension fund agreements, and no such agreements exist. The Company, in exceptional circumstances, pays an additional pension contribution for managers, never exceeding 20% of their annual salary.
- Ossur hf. does not enter into special retirement agreements with managers and other employees, but prefers to have mutual termination clauses apply as practiced on the labor market. Ossur’s employees have a three months notice clause in accordance with employment agreements or general union labor requirements. The Board reserves the right to approve, in specific instances, a termination notice up to 12 [twelve] months, particularly in the case of managers located abroad. Currently, some managers have a termination clause of up to 12 [twelve] months.
- The remuneration of the Board of Directors is approved, with forward effect for one year at a time, by the Company’s Annual General Meeting, in accordance with Company Law

*This Remuneration Policy is reviewed once a year
by The Board of Directors of Ossur hf.*



BOARD OF DIRECTORS AND CEO

THORDUR MAGNUSSON (born 1949) became a member of the Board in 2005. He is the Chairman and principal shareholder of the investment company Eyrir Invest ehf. Mr. Magnusson holds a seat on the Board of a number of Icelandic companies, including the retail companies Byko and Kaupas. He is also Chairman of the Board at Marorka, an energy-efficiency systems enterprise. Mr. Magnusson was CFO at Eimskip for over 20 years. He graduated with a Business degree from the University of Iceland in 1974 and holds an MBA from the University of Minnesota.



KRISTJAN T. RAGNARSSON (born 1943) became a member of the Ossur Board in 1999. Since 1986, Mr. Ragnarsson has served as a Professor and Chairman of the Department of Rehabilitation Medicine, Mount Sinai Medical Center in New York City. He has also been Chairman of the Faculty Practice Associates Board of Governors at Mount Sinai School of Medicine since 1997. Mr. Ragnarsson graduated from the University of Iceland's School of Medicine in 1969 and was certified by the American Board of Physical Medicine and Rehabilitation in 1976.



OSSUR KRISTINSSON (born 1943) is the founder of Ossur hf. He has served on the Board of Directors since 1971 and was Managing Director of Ossur from 1971 to 1989. Mr. Kristinsson studied prosthetics in Sweden and was accredited by the Swedish Board of Certification for Prosthetics and Orthotics in 1971.



JON SIGURDSSON, PRESIDENT & CEO (born 1956) has led the Company since 1996. He was the Commercial Counsellor for the Icelandic Trade Council in New York between 1992 and 1996 and previously Chief Financial Officer at Alafoss between 1989 and 1991. Mr. Sigurdsson also worked as Head of the International Division of Eimskip (1986–1989) and as an Engineer for Bang and Olufsen Denmark (1982–1984). He is a board member of the Icelandic Trade Council, Icelandic Chamber of Commerce, Reykjavik University and Alcan in Iceland. Mr. Sigurdsson has a B.Sc. degree in Industrial Engineering from Odense Technical College in Denmark and a Master's degree in Business Administration (MBA) from the United States International University in San Diego, USA.



NIELS JACOBSEN, CHAIRMAN OF THE BOARD (born 1957) joined the Board of Directors of Ossur in 2005. He is President and CEO of William Demant Holding A/S and Oticon A/S, a Danish industrial group in the hearing healthcare field. Previous positions include President of Aktieselskabet Orion and Vice President, Corporate Affairs for both Atlas Danmark A/S and Thrigø-Titan A/S. Mr. Jacobsen is also a board member of numerous Danish companies and organizations, including Novo Nordisk, Nielsen & Nielsen Holding, A.P. Møller-Mærsk A/S and Sennheiser Communications. He is Chairman of the board of the Hearing Instrument Manufacturers Patent Partnership A/S and holds a seat on the Central Board of the Confederation of Danish Industries. Niels Jacobsen has an MSc in Economics from the University of Aarhus in Denmark.



SIGURBJORN THORKELSSON (born 1966) became a Board Member in 1999. He is a Managing Director at Lehman Brothers Investment Bank and is currently Head of Equities for the Asia-Pacific region, based in Hong Kong. Mr. Thorkelsson completed a degree in Mechanical Engineering at the University of Iceland in 1990, and a Master's degree in Industrial Engineering and Finance at Stanford University in 1992.



EXECUTIVE MANAGEMENT

EYTHOR BENDER (born 1965), President of Ossur Americas, joined Ossur in 1995. Mr. Bender held the position of Vice President of Sales and Marketing from 2000 until 2003. He was the Company's Director of Sales from 1997 to 2000 and Marketing Manager prior to that. Before joining Ossur, Mr. Bender worked at the Hewlett Packard European Marketing Center in Germany (1993-1995) and with their European Medical Division as a marketing consultant (1989-1993). Mr. Bender has a degree in Business Administration from the University of Tübingen in Germany.



OLAFUR GYLFAÐON (born 1969), Managing Director of Ossur EMEA has been with Ossur since 1997. Mr. Gylfason was the Managing Director of Ossur Europe until 2007 and before that working in international sales and as Marketing and Sales Director for Europe. Mr. Gylfason holds a degree in Business Administration from Bifrost School of Business. He continued his studies at Ålborg University in Denmark, graduating with a Master's degree in International Business Economics in 1997.



EGILL JONSSON (born 1957), Vice President of Manufacturing and Operations, has been with Ossur since 1996. He has led the Manufacturing division since that date. He was formerly a Project Manager at VKG hf., an engineering firm in Reykjavík (1985-1996). Mr. Jonsson has a Master's degree in Mechanical Engineering from the Technical University in Copenhagen, DTU (1984).



HJORLEIFUR PALSSON (born 1963), Chief Financial Officer, joined Ossur in 2001. He is a former partner of Deloitte hf. Mr. Palsson graduated in 1988 with a Business Degree from the University of Iceland, and qualified as a Certified Public Accountant in 1989.



ARNI ALVAR ARASON (born 1964), President of Ossur Asia, has been with Ossur since 1996. Prior to his current position, he has worked within the Company as Vice President of Sales and Marketing, Vice President of Business Development, Chief Financial Officer, Marketing Manager, and Product Manager. From 1994 to 1996, Mr. Arason was a Marketing Manager at Folda hf., and he was previously Sales and Distribution Manager with Christoph Fritzsch GmbH in Germany. Mr. Arason graduated from the University of Trier in Germany with a degree in Business Administration.



HILMAR BRAGI JANUSSON (born 1961), Vice President of Research and Development, has been with Ossur since 1993. He was formerly a researcher with the Technological Institute of Iceland from 1987 to 1988. Dr. Janusson is also on the board of a number of Icelandic companies. He holds a degree in Chemistry from the University of Iceland and a Doctorate in Chemical Science and Engineering from Leeds University in England.





RISK FACTORS

An investment in the Company's shares involves a high degree of risk. Investors should carefully consider the risks and uncertainties described below, in addition to the other information included in this Annual Report, before deciding whether to invest in the Company. Ossur's business, financial condition, and results of operations could be seriously harmed by any of the events or occurrences described in this chapter. If any of the following risks materializes, the trading price of the Ossur's shares may be affected, and investors may lose all or part of their investment. Furthermore, the risks and uncertainties described below may not be the only ones Ossur faces. Additional risks and uncertainties not presently known to Ossur, or that it currently deems immaterial, may also adversely affect its business operations and financial results. The risk factors discussed below are not listed in any order of priority.

RISKS RELATING TO OSSUR'S BUSINESS

Ossur's assumptions regarding market trends may prove incorrect.
Ossur operates in the non-invasive orthopaedics market. Assumptions regarding demographic trends are of high importance for Ossur. The users of Ossur's products are mostly elderly people, people with active lifestyle, and people suffering from diabetes and other vascular diseases. Based on public data on this subject, Ossur expects that the population of the elderly will continue to grow and an increasing proportion of this population will live an active lifestyle. Ossur assumes that the number of people with diabetes will increase in the future. No assurance can be given that these assumptions will prove to be correct. In addition, Ossur believes that

these demographic trends will result in demand for the Company's products. The development by any competitor of Ossur of substitute products that better satisfy market demands could have a material adverse effect on Ossur's business and results of operations.

Ossur may be unable to develop or secure the use of new technologies.

Ossur operates in markets that are characterized by rapid technological change driven by extensive research carried out by market participants. The development by other companies of new or improved products, processes or technologies may make Ossur's products obsolete, or less competitive, and may negatively impact its revenues. Ossur is required to devote significant time and financial resources to the development and acquisition of scientifically advanced technologies and products,

apply its technologies cost-effectively across product lines and markets, attract and retain skilled development personnel, obtain patents and other protection for its technologies and products, obtain required regulatory approvals and reimbursement codes, and successfully manufacture and market its products, consistent with high quality standards. Failure to develop new products or enhance existing ones could have a material adverse effect on Ossur's business, financial condition or results of operations.

Ossur may be adversely affected by developments in medicine.

Ossur's main products are intended to improve the quality of life of individuals suffering the effects of accidents or currently incurable illnesses. Should developments within the field of medicine spur new treatments, whether surgical or drug-related, for illnesses such as diabetes, underlying afflictions such as obesity or any other illness which causes symptoms which are alleviated with products such as the ones produced by Ossur, the Company's sales of current products and its ability to secure future sales through developing new products may be adversely affected. No assurance can be given that Ossur's target market will not be materially diminished by such advances in medical science, or that Ossur will be able to generate comparable revenue from alternative market segments. As a result, Ossur's business, results of operations, or financial condition could be materially adversely affected.

Ossur may fail to continue to grow through acquisitions, and recent acquisitions that Ossur has completed may strain the Company and management resources.

A significant proportion of Ossur's growth in recent years has been driven by acquisitions, including the acquisitions of Royce Medical Inc. in the United States, in 2005, and Gibaud SAS in France, in 2006. Ossur's growth strategy will continue to include the pursuit of strategic acquisitions as a means of expanding its international operations. No assurance can be given that Ossur will be successful in identifying appropriate acquisition candidates in the key markets in which Ossur operates or desires to operate. Ossur may also be unable to complete acquisitions of targets in a timely manner or on acceptable terms. Ossur competes with both industry participants and financial buyers for the companies that it wishes to acquire. Certain of these industry participants and financial buyers may have greater resources than Ossur and may drive up acquisition prices to levels beyond which Ossur would otherwise have been prepared to pay. Acquisitions involve a number of other risks, including, among others:

- diversion of management resources during both the acquisition process and integration of the acquired business
- difficulties in integrating the acquired business with Ossur's existing business, in particular the financial reporting, internal control, management and information technology systems
- unexpected or high integration costs which could have a negative effect on Ossur's results of operation
- a failure to retain key employees of the acquired business

- acquisitions of business outside of Ossur's core competence or in geographic regions with which Ossur's management has little familiarity, and
- a failure to attain the synergies expected from completing the acquisition

In addition, Ossur's acquisitions require significant financial resources, and Ossur may use a substantial amount of its cash and other financial resources to consummate an acquisition. Ossur has historically financed the majority of its acquisitions through the issuance of shares as well external financing. There can be no assurance that Ossur will be able to obtain such financing on favorable terms in the future, or at all. In the absence of such financing, Ossur may not have the resources to make certain acquisitions. If any of the above acquisition-related risks materializes, Ossur's growth, business, results of operations, financial condition, or share price may be materially adversely affected.

Ossur relies on orthopaedic professionals, other agents and third-party distributors in connection with the sale and distribution of its products.

Ossur's sales depend primarily on the prescriptions and recommendations of its products by orthopaedic professionals. The Company has developed and maintained close relationships with a number of orthopaedics and prosthetic (O&P) workshops that support and recommend the Company's products. A failure to maintain the support of such orthopaedics professionals and O&P workshops or a failure to develop relationships with new orthopaedic professionals and O&P workshops could adversely affect Ossur's business and results of operations. Furthermore, some of Ossur's

products are sold by third-party agents and distributors. The Company's largest wholesale customer accounted for 6% of the Company's sales for the year ended December 31 2007. No other distributor accounted for more than 2% of net revenues for the same period. These agents and distributors are not employees of Ossur, and Ossur may be unable to influence their actions and performance. A loss of the Company's largest wholesale customer or a failure to manage Ossur's sales agents and distributors could adversely affect Ossur's business and results of operations.

Ossur is vulnerable to disruptions to its production facilities.

Ossur's production facilities may be adversely affected by man-made or natural disasters. An occurrence of such a disaster or the disruption of Ossur's production for any other reason could adversely affect the Company's production output, which, in turn, would impair the Company's ability to fulfill customer orders. This could lead to a decline in sales and increased costs due to necessary shifts in production within the Company and the

possible need to outsource production. The Company maintains insurance to cover such losses relating to man-made and natural disasters. No assurance can be given, however, that insurance payments would be sufficient to cover the full loss resulting from a disruption in Ossur's production or that Ossur's insurance would cover the event that causes such a disruption.

Ossur is exposed to the risk of foreign currency exchange rate fluctuations.

Ossur's functional and reporting currency is the US dollar and a large portion of the Company's indebtedness is denominated in US dollars as is the majority of its revenues and expenses. However, a significant portion of the Company's revenues and expenses is denominated in other currencies, particularly the euro. In addition, a part of long term debt is denominated in euro. Because there is a currency mismatch between Ossur's revenues and costs, fluctuations in the exchange rates, mainly between the US dollar and the euro and Icelandic krona could adversely affect Ossur's financial condition. Ossur's general policy is to apply natural exchange rate

hedging to the extent possible but the Company also uses derivative financial instruments to hedge currency risk exposures.

Ossur is experiencing significant growth and failure to effectively manage this growth may adversely affect the Company's business, results of operations and financial condition.

Ossur has experienced, and continues to experience, significant organic growth and growth through acquisitions which has placed, and will continue to place, substantial demands on the Company's management, operations and financial controls and processes. Ossur must continue to improve its operations, controls, reporting systems and procedures to meet these substantial and increasing demands. If such improvements are not implemented successfully, Ossur's ability to manage its growth will be impaired. Moreover, implementation of these improvements will use valuable management and financial resources which may have a material adverse effect on the Company's business, results of operations and financial condition.



[**Ossur is subject to risks relating to the protection of intellectual property rights.**](#)

Ossur relies on a combination of patents, trademarks, trade secrets, and non-disclosure and non-competition agreements to protect its proprietary intellectual property, and will continue to do so. While Ossur intends to defend against any threats to its intellectual property, there can be no assurance that these patents, trademarks, trade secrets or other agreements will adequately protect Ossur's intellectual property. Patents and trademarks may be challenged and subsequently invalidated for a number of reasons, such as if the patent is found to relate to technology which was already in existence when the patent was granted.

In addition, some of the markets in Asia where Ossur's products are sold offer little or no protection of intellectual property rights by way of patents and registered trademarks. Some of these markets fail to recognize such intellectual property rights and even if such rights are recognized, they are difficult to sustain, even if found to be infringed. Consequently, Ossur's technology may be

utilized with impunity by parties operating within such markets, which could affect or destroy Ossur's opportunity to successfully market its products and services within such jurisdictions.

Ossur has entered into agreements with third parties for the technical development of new products and processes, and outsources part of its production to manufacturers in Asia. While Ossur closely monitors and evaluates its outsourcing partners, and has chosen not to outsource the production of its most technologically advanced products, no assurance can be given that business partners will not exploit their access to Ossur's intellectual property or know-how in ways which will have an adverse effect on Ossur's business. Nor can any assurance be given that Ossur will be able to claim or collect any compensation in respect thereof.

If Ossur is unable to protect its intellectual property rights and know-how, this could result in a material adverse effect on Ossur's business, results of operations, or financial condition.

[**Ossur is subject to risks related to its international operations.**](#)

Headquartered in Reykjavik, Iceland, Ossur has significant operations in the United States and Europe and an office in Shanghai, China. Ossur has also outsourced part of its production to Asia, mainly China and Taiwan. Ossur's business and results of operations are therefore subject to various risks inherent to international operations. Such risks include, among others:

- recessionary trends, inflation or instability of financial markets
- exposure to different legal standards and enforcement mechanisms and the cost of compliance with those standards
- limited legal protection and enforcement of intellectual property rights
- subjection to multiple taxation regimes, including regulations relating to transfer pricing and withholding tax on remittance and other payments by or to subsidiaries
- insufficient internal controls

- longer payment terms on Ossur's accounts receivable
- tariffs, duties, export controls, import restrictions and other trade barriers
- rules regarding the origins of products
- labor unrest
- interest rate fluctuations
- foreign exchange controls and restrictions on repatriation of funds, and
- political and social instability

Any of the events generally described above could have a material adverse effect on Ossur's business if such an event materializes.

Ossur may be subject to patent and other intellectual property litigation which may have a negative effect on its business and results of operation.

Ossur operates in an industry characterized by extensive patent litigation. Patent and other intellectual property litigation can result in significant damage awards and injunctions that could prevent Ossur's manufacture and sale of affected products, or require it to pay significant royalties in order to continue to manufacture or sell affected products. In addition, such litigation may be costly and divert management resources. While it is not possible to predict the outcome of a patent litigation incident to its business, Ossur believes that any litigation could result in the payment by Ossur of significant monetary damages and/or royalty payments, negatively affect Ossur's ability to sell current or future products or prohibit Ossur from enforcing its patent and proprietary

rights against others, each of which could have a material adverse effect on Ossur's revenues, financial condition or cash flows.

Following a patent infringement challenge by Mölnlycke Health Care when Ossur began its marketing efforts of Gentleheal® wound care product, Ossur filed a Declaration of Non-Infringement legal action in May, 2004 against Mölnlycke in Stockholm, requesting the Court to determine that the Gentleheal product did not infringe Mölnlycke's European patent. Mölnlycke has denied Ossur's claim. The case is litigated in Swedish court, but the scope includes all seven jurisdictions where the patent is valid i.e. Sweden, Germany, Italy, Spain, France, Belgium, and, United Kingdom. After the introduction of Gentleheal at the tradeshow in Atlanta, GA in April 2006, Mölnlycke filed a complaint against Ossur's distributor Medline and Ossur North America, alleging infringement of their US patent, belonging to the same patent family as the European patent that is the object of the Swedish litigation. On 21 June, 2007, the Court issued a Claim Construction Order. At the date of this report, fact discovery is largely concluded. The parties are currently in the expert discovery stages of the litigation.

Ossur's use of financing structure within the consolidation is subject to laws and governmental approvals.

Ossur finances its subsidiaries and acquisitions internally through its Swiss financial branch, established in 2002. The purpose of the branch is to minimize corporate taxation by taking advantage of the favorable taxation of Swiss financial branches and the favorable double

taxation agreement between Switzerland and Iceland, the US, Netherlands and the UK. The financing structure results in tax deductions in countries where tax is higher than that imposed on the financing branch. Ossur has obtained opinions on the legality of the financing structure from the relevant local tax authorities. No assurance can be given that the relevant laws and regulations will remain unchanged, changes could have a material adverse effect on Ossur's net results.

Product liability claims could adversely impact Ossur's financial condition and results of operations and impair its reputation.

Ossur is responsible for the safety and effectiveness of its products. Although Ossur engages in internal quality control and product testing procedures, Ossur cannot guarantee that it will not be found liable for a product liability claim in the future. While Ossur is insured against costs resulting from defective products, including the payment of damages awarded in lawsuits, no assurance can be given that such insurance will continue to be available on commercially reasonable terms, or at all. Any adverse judgment with respect to a product liability claim for an amount in excess of the Company's maximum insurance coverage could also have a material adverse effect on the Company's reputation or results of operations. The Company is insured against product liability claims up to a maximum limit of \$30 million. In addition, any product liability claim may be costly to defend and may divert management resources away from other aspects of operating Ossur's business. Ossur is currently developing numerous products for future introduction to the marketplace. If any of these prod-

ucts have design defects that are discovered after their introduction to the market, the results may include legal claims from end-users, delayed or discontinued sales and damage to Ossur's reputation which, in turn, could materially adversely affect Ossur's financial condition and results of operations.

In 2005, a complaint was filed in the Circuit Court of the Seventh Judicial Circuit, Sangamon County, in Springfield Illinois (US) against numerous defendants, including Philadelphia Cervical Collar Company Inc. (PCCC), a wholly-owned subsidiary of Ossur Americas, Inc., of which Ossur hf. is the parent company. The complaint alleges that plaintiffs sustained severe physical injuries from the medical treatment received at St. John's Hospital in Springfield on 11 January 2005 following a traffic accident. As part of his medical treatment, plaintiff was placed in a cervical collar manufactured by PCCC. Plaintiff claims that the collar was defectively designed and that PCCC failed to adequately instruct on its proper use. While the complaint alleges damages "in excess of 50 thousand USD," a subsequent settlement demand from plaintiff to all defendants seeks a material sum in damages, possibly exceeding PCCC's product liability insurance. PCCC has product liability insurance for 5 million USD. A trial is scheduled during the first half of 2007. The likely outcome of this matter remains uncertain.

Ossur operates in fragmented and competitive markets.
Ossur operates in fragmented and competitive markets. Ossur primarily operates in the highly competitive prosthetics, bracing and support markets, which comprise





both niche companies and larger diversified orthopaedic companies. There can be no assurance that Ossur will be able to maintain its competitive position in the different markets in which Ossur operates. Some of Ossur's competitors may have greater financial resources than Ossur and may use this advantage to increase their market share. In addition, if the Company's current competitors choose to focus on increasing unit sales or if new participants with strong financial resources enter the markets in which Ossur operates, downward pressure on prices could result. If Ossur is unable to respond to any of these or other competitive pressures, Ossur's business, results of operations, or financial condition could be materially adversely affected.

Ossur may be subject to potential liabilities from its acquired businesses.

Ossur has acquired several companies during recent years and intends to continue to pursue an acquisition strategy. As a result of its acquisitions, the Company may be exposed to potential liabilities arising from the acquired businesses, which may not be covered by warranties and indemnities in contractual agreements with sellers. If any such potential liabilities materialize, such liabilities may have a material adverse effect on Ossur's business, results of operations or financial condition.

Ossur is dependent on certain raw materials.

Ossur's products require silicone and carbon, metals and other raw materials. Such raw materials may not always be available on favorable terms, or at all. Ossur is currently dependent on a limited number of suppliers of both silicone and carbon. Losing a key supplier could

impair the Company's ability to meet customer demand. No assurance can be given that Ossur will not lose key suppliers or that an alternative supplier can be engaged on competitive terms, or at all.

Ossur may be unable to retain or recruit experienced and qualified personnel.

Ossur's business and prospects depend, in part, on its ability to continue to retain and motivate qualified and experienced personnel. In particular, the Company's Board of Directors and senior management, along with other key personnel, possess considerable experience and extensive knowledge of the markets in which Ossur participates and the products which Ossur produces. The Company faces constant competition for the services of these individuals and should they decide to leave the Company, valuable knowledge and experience would be lost. The geographical location of employment may also make working at Ossur less attractive to a large portion of potential applicants, as most of Ossur's research and development activities take place in Iceland. The Company's research and development activities may be adversely affected if the Company is unsuccessful in recruiting qualified personnel, which in turn could adversely impact the future prospects of the Company.

RISKS RELATED TO GOVERNMENT HEALTHCARE REGULATION

Ossur's business is subject to healthcare industry reforms and legislative and regulatory changes that could result in reduced sales of its products.

Most of Ossur's customers rely on third-party payers, including both government healthcare programs and

private health insurance plans, to cover and reimburse some or all of the costs associated with Ossur's products. All third-party payers, whether governmental or commercial, whether inside the United States or outside, are developing increasingly sophisticated methods of controlling healthcare costs.

Even if third-party payers provide adequate coverage and reimbursement for Ossur's products, adverse legislative and regulatory changes toward third-party coverage and reimbursement could limit market acceptance for Ossur's products and materially harm Ossur's sales and revenue growth, which could cause Ossur's stock price to decline.

Ossur's success in the European market also depends upon the eligibility of reimbursement for the Company's products through government-sponsored healthcare payment systems and third-party payers. Reimbursement and healthcare payment systems in the European market vary significantly by country and, within some countries, by region. In certain areas, payment systems may control reimbursement as well as procurement for Ossur's products. In addition, as economies of emerging markets develop, these countries may implement changes in their healthcare delivery and payment systems.

Furthermore, healthcare cost containment efforts similar to those underway in the United States are prevalent in many of the other countries in which Ossur intends to sell its products and these efforts are expected to continue.

Ossur's failure to comply with regulatory requirements or receive regulatory clearance or approval for its products or operations in the United States or abroad would adversely affect Ossur's revenues and potential for future growth.

Ossur's products are medical devices that are subject to extensive regulation in the United States by the Food and Drug Administration (FDA), and by respective authorities in foreign countries where Ossur does business. The FDA regulates virtually all aspects of a medical device's design and testing, manufacture, safety, labeling, storage, recordkeeping, reporting, clearance and approval, promotion and distribution. The FDA also regulates the export of medical devices to foreign countries. Failure to comply with the regulatory requirements of the FDA and other applicable US regulatory requirements may subject a company to administrative or judicially imposed sanctions ranging from warning letters to criminal penalties or product withdrawal.

Even if regulatory approval or clearance of a medical device is granted, the FDA may impose limitations or restrictions on the uses and indications for which the device may be labeled and promoted, and failure to comply with FDA regulations prohibiting a manufacturer from promoting a device for an unapproved, or "off-label" use could result in enforcement action by the FDA, including, among other things, untitled letters, warning letters, fines, injunctions, consent decrees, and civil or criminal penalties.

If Ossur fails to comply with the FDA's Quality System Regulation or similar European requirements, inter alia imposed by the Medical Device Directive, manufacturing of the Company's products could be delayed and product sales and profitability could suffer.

Ossur's manufacturing processes are required to comply with the FDA's Quality System Regulation, which regulates procedures (and the documentation of such procedures) related to the design, testing, production processes, controls, quality assurance, labeling, packaging, storage, and shipping of the Company's devices. Ossur is also subject to state regulations and licensing requirements applicable to manufacturers of medical devices. In addition, Ossur must engage in extensive recordkeeping and reporting and must make the Company's manufacturing facilities and records available for periodic unscheduled inspections by governmental agencies, including the FDA, state authorities and comparable agencies in other countries. Moreover, failure to pass a Quality System Regulation inspection or to comply with these and other applicable regulatory requirements could result in the disruption of Ossur's operations and manufacturing delays. Failure to take adequate corrective action could result in, among other things, significant fines, suspension of approvals, seizures or recalls of products, operating restrictions and criminal prosecutions. Ossur cannot assure you that the FDA or other governmental authorities would agree with its interpretation of applicable regulatory requirements or that it has in all instances fully complied with all applicable requirements. Any failure to comply with applicable requirements could adversely affect Ossur's product sales and profitability.

Ossur's products are subject to reporting requirements and recalls, which could harm Ossur's business.

Ossur is subject to medical device reporting regulations, or MDRs, that require it to report to the FDA in the United States or governmental authorities in other countries whenever there is evidence that Ossur's products may have caused or contributed to a death or serious injury or malfunctioned in a way that would be reasonably likely to contribute to death or serious injury if the malfunction were to recur. The FDA and similar governmental authorities in other countries have the authority to require the recall of Ossur's products in the event of material deficiencies or defects in design or manufacturing, and Ossur has been subject to product recalls in the past. A government-mandated or voluntary recall by Ossur could occur as a result of component failures, manufacturing errors or design defects, including errors in labeling. No assurance can be given that there will not be product recalls in the future or that such recalls would not have a material adverse effect on Ossur's business.

Ossur may be adversely affected by changes in government policies regarding market approvals or clearances. Changes in governmental regulations and government policies towards market approvals or clearances could substantially affect Ossur's market prospects. Ossur's products are subject to various regulations and supervision by public authorities. In the United States, the Company's largest market, the Company must comply with the rules and regulations of the FDA, and in the European Union, the Company must comply with the Medi-

cal Device Directive. Failure to comply with these regulations could result in the imposition of sanctions which could affect the profitability of the business. Currently, all of Ossur's products comply with FDA standards and are CE-marked for the European market. Regulatory changes regarding quality and efficacy testing, production facilities, requirements for obtaining marketing approvals, labeling and marketing activities may have a material adverse effect on the Company's business and results of operations.

Introducing new products or modifying existing ones is the subject of approval by the authorities in each market area. Failure to obtain such approval and potential costs stemming from product modifications necessary to obtain such approval may adversely affect the Company in the future.

Ossur may need to change its business practices to comply with US healthcare fraud and abuse laws and regulations.

Ossur is subject to various US federal and state laws pertaining to healthcare fraud and abuse, including, without limitation, anti-kickback laws and physician self-referral laws. Violations of these laws are punishable by criminal and civil sanctions, including, in some instances, imprisonment and exclusion from participation in US federal and state healthcare programs, including Medicare and Medicaid, among others. Because of the far-reaching nature of these laws, Ossur may be required to alter one or

more of its practices. Healthcare fraud and abuse laws and regulations are complex and even minor, inadvertent irregularities in submissions can potentially give rise to claims that a fraud and abuse law or regulation has been violated. Any violations of these laws or regulations could have a material adverse effect on Ossur's business, financial condition and results of operations. If current laws, regulations or administrative or judicial interpretations change in the future, Ossur may have to modify its existing business practices or risks having such business practices challenged as unlawful.

On 5 December 2006, Ossur hf., parent company of Ossur North America Inc. and Royce Medical Inc., Ossur America's predecessor companies, disclosed to the Office of Inspector General of the U.S. Department of Defense that Ossur North America, Inc. and Royce Medical Company may have made some sales to the government that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review was conducted by third party experts of the sales and the circumstances surrounding the sales. The review's conclusions concluded that Ossur was in breach. The report was sent to the Inspector General of the Department of Defense in the last quarter of 2007. The likely outcome of this matter remains uncertain.



OSSUR SHARES

Ossur has been listed on the OMX Iceland Stock Exchange since 1999, stock symbol HL:OSSR, and is included in the ICEX-15 index, which consists of the 15 most traded companies listed on the OMX Iceland. The price of Ossur shares declined by 12.8% in 2007, from 113 at year-end 2006 to 98.5 at year-end 2007. The ICEX -15 index decreased by 1.4%.

The total turnover of Ossur shares over the year amounted to USD 230 million, which corresponds to a turnover rate of 33%. The average spread of Ossur stock over the year was 0.95%. The lowest trading price during the year was 96.5, the highest was 129 and the average trading price 110.7 pr. share.

OMX ICELAND

Late 2006, the OMX Nordic Exchange acquired the Iceland Stock Exchange and took over the operation in December. Becoming a part of the OMX, Nordic Exchange will increase visibility for Ossur as the Company is now included in the OMX indices and listed on the Nordic List. Ossur is included in the healthcare index and falls into the category of Mid-Cap sized companies.

SHAREHOLDERS

At year-end, the number of shareholders was 2.842. The largest single shareholder was William Demant Invest A/S, holding 34.27%. The company is wholly-owned by Mr. William Demant and Hustru Ida Emilie Fond ('the Oticon Foundation'), which, among other investments, is also a majority shareholder in the hearing aid manufacturer William Demant Holding A/S, listed on the OMX Copenhagen Stock Exchange. Mr. Niels Jacobsen, the President and CEO of William Demant Holding A/S, is the chairman of the Board of Ossur.

The second largest shareholder was Eyrir Invest ehf., holding 19.87%. Eyrir is an active holder in companies that are potential industry leaders in various market

segments. The principal shareholders of Eyrir Invest are Mr. Arni Oddur Thordarson, the CEO of Eyrir Invest, and Mr. Thordur Magnusson, the chairman of the Board of Eyrir Invest. Mr. Thordur Magnusson is the Vice Chairman of the Board of Ossur. The third largest shareholder was Mallard Holding, owned by the founder of the company, Mr. Össur Kristinsson, and his family, with holdings of 8.87%. Mr. Össur Kristinsson is a member of the Ossur Board.

The Company holds 17,992 treasury shares which is the same as at year-end 2006. No treasury shares have been traded in 2007.

PRIVATE PLACEMENT

At a board meeting on 29 October 2007, the Board of Directors agreed to increase the Company's share capital through a private placement of new shares, representing an increase of up to 10% of its total issued share capital. The purpose of the offering was to strengthen the Company's

STOCK SYMBOL	OSSR
BLOOMBERG	OSS.IR
REUTERS	OSSR.IC

TOTAL NUMBER OF SHARES	423.000.000
TOTAL NUMBER OF SHAREHOLDERS AT YEAR END	2.842
MARKET CAP. AT YEA REND	\$ 672 MILLION

capital structure and expand the shareholder base. The placement was managed by Kaupthing Bank hf.

The private placement was finalized on 30 October and the new shares represent 9.89% of Ossur's total issued share capital, increasing the number of total shares from 384,940,447 to 423,000,000. The private placement was oversubscribed and the new shares were allocated to Denmark's largest pension fund, the ATP, and selected Icelandic institutional investors, making the ATP the fifth largest shareholder, holding 3.47%.

DIVIDEND POLICY

No dividends have been paid to Ossur shareholders. In the event that an annual general meeting resolves to pay dividends, the dividends will be paid to registered shareholders pursuant to the share ledger on the day of the AGM. According to a Ossur prospectus from 2005, the Company does not plan to pay dividends to shareholders in the near future; instead, earnings will be re-invested in the growth of the Company for as long as the return on investment in Ossur's business sectors exceeds the returns offered in other sectors at same level of risk.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is held before the end of June each year. According to the Articles of Association of the Company, the meeting is convened under the same procedure as other shareholders' meetings, with at least two weeks notice. The results of the Annual General Meeting are sent to the Stock Exchange immediately after the meeting and are made available on the Company website in the course of the following business days.

At the 2007 AGM, the Board of Directors was authorized to increase the share capital of Ossur up to 200.000.000 shares through the sale of new shares without the provision on pre-emption rights.

The 2009 Annual General Meeting will be held on 20 February.

INVESTOR RELATIONS

Placing great emphasis on providing investors, analysts and other stakeholders with timely and accurate information, Ossur hosts investor meetings, teleconferences and Internet presentations following each quarterly report and on other occasions, if need be.

LARGEST SHAREHOLDERS 31.12.2007

Name		Total Capital	%
William Demant Invest A/S	Investment Fund	144,952,402	34.27
Eyrir Invest ehf	Investment Company	84,040,215	19.87
Mallard Holding S.A.	Founder & family	37,526,769	8.87
Vik Investment Holding S.a.r.L.	President & CEO	24,446,907	5.78
ATP-Arbejdmarkedets	Pension Fund	14,660,194	3.47
Arion safnreikningur	Custody Bank	9,868,239	2.33
Gildi - lífeyrissjóður	Pension Fund	8,917,568	2.11
Lífeyrissjóður verslunarmana	Pension Fund	7,870,283	1.86
Sameinaði lífeyrissjóðurinn	Pension Fund	7,352,371	1.74
Lífeyrissjóðir Bankastræti 7	Pension Fund	5,859,163	1.39
Landsbanki Íslands hf	Bank	5,814,240	1.37
BYR sparisjóður	Bank	4,545,138	1.07
Mycenaean Holding S.a.r.L.	VP of R&D	3,560,347	0.84
Stafir lífeyrissjóður	Pension Fund	3,316,211	0.78
Kaupping banki hf	Bank	3,037,373	0.72
Top 15 shareholders		365,767,420	86.47
Others (2.827)		57,232,580	13.53
Total number of shares		423,000,000	100.00

WE SERVE OUR INVESTORS, WHEREVER THEY ARE, BY COMMUNICATING IN AN INFORMATIVE AND HONEST WAY. WE ARE AMBITIOUS ABOUT THE WAY WE INTERACT.

The cornerstone of the Company policy on investor relations is to secure equal access for all shareholders to all information. In order to secure equal access for Icelandic and non-Icelandic investors, all information published in Icelandic are simultaneously published in English. Through efficient reporting, the Company ensures that all necessary information concerning the progress of the Company is clear and contributes to the correct price formation of the Company's stock. Ossur uses the Hugin distribution system to disseminate press releases to the market and all major press rooms.

Twice a year the CEO, CFO and IR manager travel on a road show, to London, Copenhagen, NY and in 2007 for the first time to Frankfurt, to meet with analysts, investors and other stakeholders. Ossur's management has in the past participated in conferences in its field such as The Goldman Sachs European Medtech and Healthcare Services Conference and Merrill Lynch European Healthcare Conference, both in London and the UBS Global Life Science Conference and CIBC World Markets Annual Healthcare Conference, both in NY.

In June, Ossur was awarded the Investor Relations Magazine Nordic award for best investor relations from an Icelandic company. This is the fourth time Ossur receives this honor, but the Company has been nominated six times. In addition Jon Sigurdsson, CFO and Hjorleifur Palsson, CFO were awarded the best IR support by CEO & CFO by an Icelandic company.

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SHAREHOLDER INFORMATION ON THE INTERNET

The Ossur hf. website hosts extensive information on the Company. For example, stakeholders can read and subscribe to press releases sent to the OMX Iceland Stock Exchange, monitor the price trends of the shares, interactive analyst tools, rss-feed, read the Company's annual reports and listen to teleconferences with the Company management for 10 days following the conferences. The latest addition to the IR website is a tool monitoring the latest recommendations by the analysts following the Company. The website also contains extensive information about the Company's products and technology.

WWW.OSSUR.COM—WWW.OSSUR.COM/INVESTORS

PUBLICATION SCHEDULE FOR REPORTS

29 April 2008	1st Quarter
29 July 2008	2nd quarter
28 October 2008	3rd Quarter
5 February 2009	4th Quarter
20 February 2009	Annual General Meeting

OSSUR HF. PRESS RELEASES IN 2007

7 February 2007 – Ossur Annual Results
9 February – Ossur AGM announcement
16 February – The Agenda of the AGM
23 February – Results of the AGM
23 February – Annual Report
2 May – Q1 Report
31 July – Q2 Report
30 October – Q3 Report
30 October – Share Capital increase announcement
31 October – Major shareholder announcement- list of 20 major share holders
8 November – Changes in share capital and votes – Increased share capital
4 December – Ossur has sold the option to buy the company's headquarters in Iceland

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PERFORMANCE OVERVIEW 2007

Strong organic growth in prosthetics, restructuring and internal focus characterized the year. Total sales amounted to USD 335.6 million representing a growth of 33%. Organic sales growth was 7%. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to USD 64.4 million or 19.2% of sales and increased by USD 24.9 million or 63% from 2006.

Sales growth in prosthetics continued to exceed the market growth and was 13%. This confirms Ossur's strength in this market segment and technical leadership. In 2007 bionic sales accounted for 10% of the total prosthetic sales. Sales growth in braces and support, including Gibaud and Somas, was 34%.

As reported, major restructuring of the bracing and support sales channel in the US was initiated in the beginning of the year. Numerous US bracing and support companies were acquired in 2005 and 2006 marking Ossur's entrance into this new market segment. The restructuring activities are very important for the Company to fully realize the potential synergies and the Company's vision to create one player in the larger field of orthopaedics. Based on past experience in consolidating the prosthetics sales channels, the Company's management

is confident that Ossur will harvest from these efforts in coming years.

Some of the main focus areas in 2008 will be to exploit further the cross selling opportunities as well as finalizing the product rationalization of the Company's bracing and support product line. The product rationalization will make marketing and sales more effective and improve the gross profit margin.

OPERATING INCOME

Sales amounted to USD 335.6 million, up by 33% from 2006, measured in US dollars. Exchange rate trends had a positive impact on sales and growth measured in local currency was 28%. Organic sales growth was 7% measured in US dollars, 3% measured in local currency.

Sales of prosthetic products accounted for USD 134 million, representing approximately 40% of total sales and a healthy growth of 13% from 2006. Sales of bracing and support products accounted for USD 178 million, representing 53% of total sales and an increase of 34% from the previous year. Sales of compression therapy products accounted for USD 19 million, representing 6% of total sales.

Sales in Americas amounted to USD 162 million in 2007, representing 48% of total sales, compared to 62% in 2006. Sales were up by 3% from the previous year. Organic growth was 2%. Prosthetics sales in Americas continued to grow double digit, which is significantly above the estimated market growth of 3-5%. Sales of bracing and support products decreased due to the major restructuring of the bracing and support sales channel initiated in the beginning of the year.

Sales in EMEA, amounted to USD 163 million, accounting for 49% of total sales, compared to 32% in 2006. Sales growth in EMEA was 89%, measured in US dollars and 74%, measured in local currency. Organic growth was 4% measured in local currency. Traditional Europe is harvesting from restructuring made in 2006 following acquisitions in 2005 and Gibaud is proceeding according to plans. Seasonality in sales has increased following the acquisition of Gibaud, where operations close for 4-6 weeks in July and August for summer vacations. This has a negative effect on both sales and operating profit in EMEA as a large proportion of expenses is fixed.

Growth in Asia measured in USD was 15% and 12% measured in local currency. Sales in Asia accounted for 3% of sales, compared to 4% in 2006. Reimbursement changes in Japan have affected the sales as Japan is a significant part of the Ossur Asia sales. During this first year of operation, the Asia unit has set up all basic administrative functions.

At year end, Ossur had operations in 14 locations worldwide.

GROSS PROFIT

Gross profit amounted to USD 196 million, increasing by 31% from 2006. The gross profit margin was 58.3% compared to 59.2% in 2006. The decline in the ratio is primarily due to product mix changes and that economies of scale in the bionic line have not fully materialized yet.

OTHER INCOME

Other income amounted to USD 12 million or 3.6% of sales. One-time other income includes the sale of the option to buy the Company's facilities in Reykjavik amounting to USD 7.6 million and USD 3.4 million cash proceeds collected from an IP litigation against Bledsoe Brace Systems as announced in 2005. Due to uncertainty of the collection of the damages it was decided to recognize revenue on a collection basis. In October 2007 Bledsoe was sold and the full and final payment made.

OPERATING EXPENSES

Amortization of intangible assets relating to acquisitions amounted to USD 15.6 million, compared to USD 13.1 million in 2006. The amortization following acquisitions in the past is in accordance with accounting standards, affecting the P/L statement although the underlying intangible assets are not decreasing in value. The amount is allocated to individual operating items as follows:

ALLOCATION OF AMORTIZATION OF INTANGIBLE ASSETS TO EXPENSE ITEMS	2007 USD '000	2007 % of sales	2006 USD '000	2006 % of sales
Cost of goods sold	456	0.1%	246	0.1%
Sales and marketing expenses	7,258	2.2%	7,172	2.8%
Research & development expenses	4,418	1.3%	4,321	1.7%
General & administrative expenses	3,515	1.0%	1,448	0.6%
Effect on profit from operations	15,647	4.7%	13,187	5.2%

Amortization of intangible assets will continue at the same level for the next three years and then drop to a lower level for another six years. Further acquisitions will affect the amortization level.

Sales and marketing expenses were 25.5% of sales, compared to 26.8% in 2006.

Research and development expenses, amounted to 6.0% of sales, compared to 7.1% in 2006. Following the acquisitions and the integration efforts economies of scale is starting to be realized in the R&D unit. All research and development costs continue to be expensed.

General and administrative expenses amount to 18.6% of sales compared to 14.3% in 2006. Exchange rate trends, unusual litigation expenses due to the wound care IP litigation amounting to USD 3.6 million and the fact that Gibaud's G&A cost ratio is still significantly higher than historically at Ossur, all contribute to the increase. Accounting methods at Gibaud have not been fully aligned to IFRS and Ossur methods resulting in expenses being recorded as G&A that would normally be classified as cost of goods sold and sales and marketing expenses. A re-class of expenses at Gibaud will take place in 2008 as accounting will be fully aligned.

FINANCIAL ITEMS

Net financial expenses increased by 54% from 2006. Net interest expenses increased by 59%, mainly due to the 100 million Euro bridge loan undertaken to finance the acquisition of Gibaud in December 2006.

Ossur has entered into an interest rate swap agreement fixing the rates of the Company's long term debt at a weighted average of 5.99% per annum interest rate. Ap-

proximately 63% of Ossur's long term bank loans are in US dollars and 37% in Euros. The significant strengthening of the Euro against the US dollar in 2007 resulted in an approximately USD 8.8 million negative exchange rate difference on the Company's long term debt. During the year, the Company entered into foreign exchange contracts to hedge the exchange rate risk on the Euro dominated long term liabilities. These contracts were closed prior to maturity resulting in a USD 8.7 gain which is realized through the profit and loss statement. There were no outstanding foreign currency exchange contracts at the end of the year.

From 1 July 2007, exchange rate differences on the Euro bridge loan are realized over equity against exchange rate gains on the relevant investment, in accordance with IFRS standard 39. The bridge loan is defined as a hedge against the Euro investment in Gibaud. As a result, a negative exchange rate difference of USD 3.3 million was recognized through financial expenses in the income statement in the first half of the year and USD 10.6 million through equity in the second half of the year.

INCOME TAX

Income tax was USD 473 thousand compared to a positive income tax of USD 5.2 million in 2006, resulting in an effective tax rate of 5.9%. The low tax rate in 2007 was due to significant deductions relating to a net loss in the Americas in 2007 as well as deductions relating to the internal financing structure of the Company. The same reasons apply for the unusual positive effective tax rate in 2006.

The consolidated company as a whole is not jointly taxed, although the US sub-consolidation is. In other regions, individual companies are independent taxable entities. The income tax rate of the parent company in Iceland is 18%, which is among the most favorable tax terms in the world.

PROFIT FOR THE YEAR

Profit from operations for the year was USD 39.7 million, compared to USD 19.7 million in 2006. The operating profit margin was 11.8% in 2007, as compared to 7.8% in 2006.

Net profit amounted to USD 7.6 million compared to USD 4.4 million in 2006, increasing by 74%.

EBITDA amounted to USD 64.4 million, up by 63% from 2006 and corresponds to 19.2% of sales compared to USD 39.5 million and 15.7% of sales in 2006. EBITDA adjusted for one-time income and expenses amounted to USD 58.4 million, up by 22% and corresponds to 17.4% of sales in 2007 compared to USD 47.9 million and 19.0% of sales in 2006. One time income due to the cash proceeds from the Bledsoe litigation and the sale of the option to buy the Company's facilities amount to USD 11 million and one-time expenses consist of inventory step-up at Gibaud and Somas amounting to USD 1.4 million as well as the wound care litigation expenses amounting to USD 3.6 million.

EARNINGS PER SHARE

EARNINGS PER SHARE	2007	2006	Change
EPS diluted (US cents)	1.94	1.13	71%
Cash EPS diluted (US cents)	8.24	6.27	31%

The increase in the Company's leverage associated with financing of recent acquisitions and the related significant increase in interest expenses and exchange rate differences between 2006 and 2007 should be considered when assessing changes in earnings per share.

BALANCE SHEETS

Total assets have increased by USD 23 million from the end of 2006, or by 4%. The acquisition of Somas in February accounts for almost 50% of the increase.

In October Ossur completed a share capital increase through a private placement of new shares, representing a 9.9% increase of issued share capital. The net proceeds amounted to USD 65 million. The equity ratio at the end of 2007 was 39%, compared to 26% at the end of 2006.

The proceeds from the private placement were used to partly pay down the bridge loan, undertaken to finance the acquisition of Gibaud in December 2006, strengthening the capital structure of the Company. The bridge loan is included in the Company's current liabilities.

Net interest bearing debt over EBITDA was 4.4x at the end of the year (4.8x EBITDA adjusted).



CASH FLOW

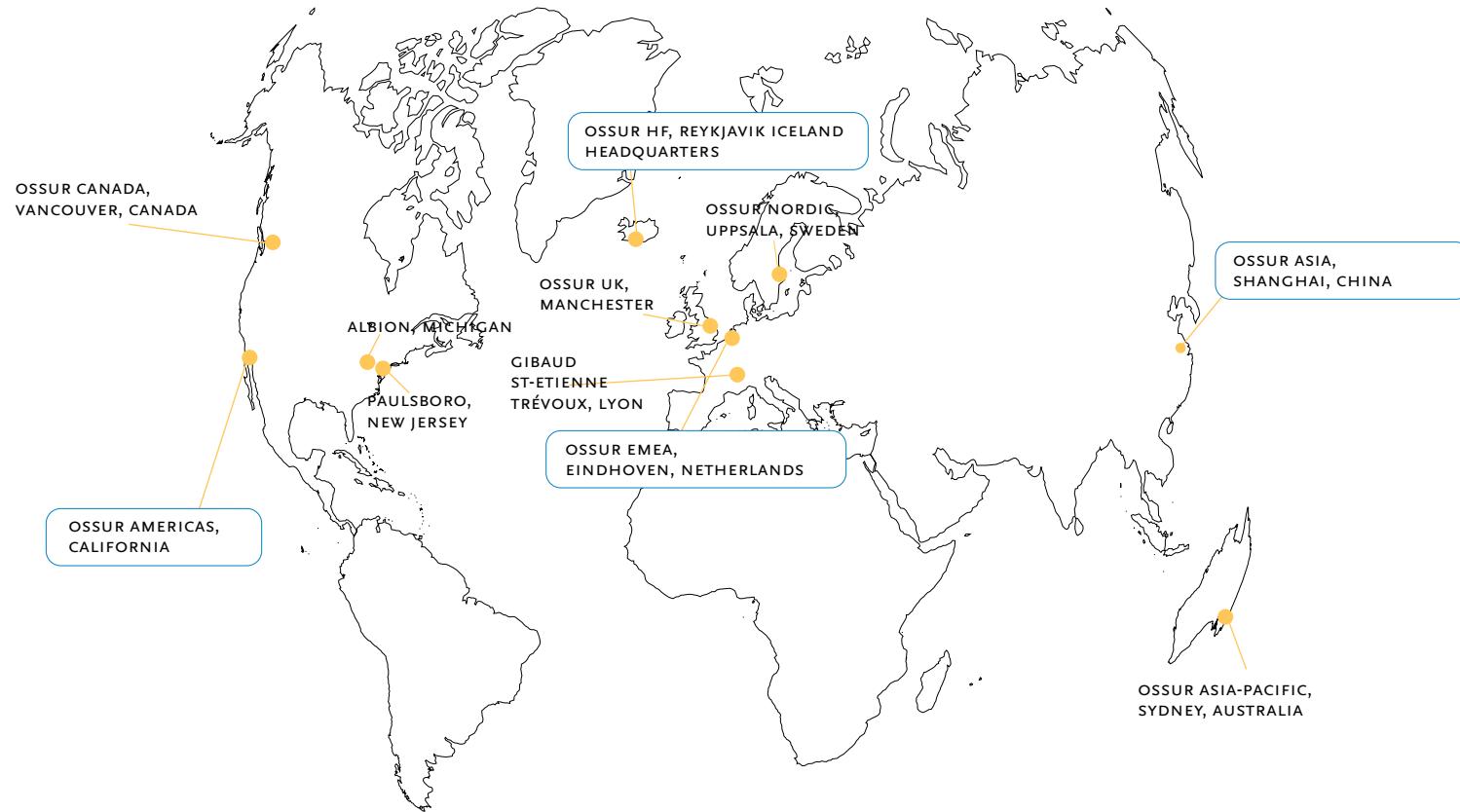
Working capital provided by operating activities amounted to USD 44 million, compared to 24.7 million in 2006. Cash generated by operating activities amounted to USD 45.7 million, compared to USD 16.0 million in 2006. Sales of the option to buy the Company's facilities in Reykjavik as well as proceeds from the Bledsoe litigation and closing of foreign currency contracts all contributed to the significant increase in net cash provided by operating activities.

CAPITAL EXPENDITURE AND INVESTMENTS

Capital investments amounted to USD 7.1 million or 2.1% of sales, compared to USD 10.9 million or 4.3% of sales in 2006. Capital investments in 2007 were unusually low after extensive investments for the past 2-3 years, especially in IT platforms.

The financial statements of Ossur have been prepared in accordance with the IFRS (International Financial Reporting Standards) since 2003.

LOCATIONS



FORWARD-LOOKING STATEMENTS

This annual report contains projections and other forward-looking statements regarding future events and/or the future financial performance of Ossur hf. You can identify forward-looking statements by term, such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" or the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ materially. We do not intend

to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, rapid technological and market change in our industries, as well as many other risks specifically related to Ossur hf. and its operations.

A wide-angle photograph of a natural landscape. In the background, a large, green, grassy hillside rises against a clear blue sky. In the middle ground, a body of water is visible. The foreground is covered in a dense, dark, rocky or mossy terrain, with patches of green moss and small pools of water reflecting the sky. The overall scene is a mix of rugged and serene natural elements.

OSSUR HF. CONSOLIDATED FINANCIAL STATEMENTS 2007



FINANCIAL RATIOS

CONSOLIDATED STATEMENT			2007	2006	2005	2004	2003
GROWTH	Net sales	USD '000	335,609	252,133	160,729	124,399	94,467
	EBITDA	USD '000	64,392	39,493	25,832	25,045	9,428
	Profit from operations	USD '000	39,716	19,743	16,525	20,374	6,112
	Employees	Number	1,617	1,190	680	568	480
	Net income	USD '000	7,580	4,360	11,688	15,227	4,661
	Total assets	USD '000	635,821	612,752	407,986	108,915	102,126
OPERATIONAL PERFORMANCE	Cash provided by operating activities	USD '000	45,701	15,988	15,481	16,600	10,383
	– as ratio to total debt	%	11	5	10	30	23
	– as ratio to net result	%	6	3.7	1.3	1.1	2.2
	Working capital from operating activities	USD '000	43,991	24,663	18,954	23,095	8,774
	– as ratio to long-term debt and stockh. Equity	%	11	6	8	27	13
	– as ratio to investm., current maturities, divid.	%	1.2	0.1	0.1	0.8	0.2
LIQUIDITY AND SOLVENCY	Quick ratio		0.5	0.4	1.4	1.4	1.2
	Current ratio		0.9	0.6	2.1	2.2	1.8
	Equity ratio	%	39	26	37	50	43
ASSET UTILIZATION AND EFFICIENCY	Net sales pr. employee	USD '000	208	212	236	219	197
	Total asset turnover		0.5	0.5	0.6	1.2	1.1
	Grace period granted	Days	55	46	44	44	47
PROFITABILITY	Return on capital	%	5	5	10	20	9
	Return on common equity	%	4	3	15	31	11
	Operating profit as ratio to net sales	%	12	8	10	16	6
	Net income before taxes as ratio to net sales	%	2	0	8	15	6
	Net income for the period as ratio to net sales	%	2	2	7	12	5
MARKET	Market value of equity	USD '000	672,024	605,572	695,125	395,514	201,237
	Price/earnings ratio, (P/E)		88.7	138.9	59.5	26.0	43.2
	Price/book ratio		2.7	3.7	4.5	7.2	4.6
	Number of shares	Millions	423	385	385	318	328
	Earnings per Share, (EPS)	US Cent	1.94	1.13	3.53	4.80	1.45
	Diluted Earnings per Share, (Diluted EPS)	US Cent	1.94	1.13	3.52	4.80	1.44
	Cash EPS	US Cent	8.24	6.27	6.34	6.28	2.48
	Diluted Cash EPS	US Cent	8.24	6.27	6.33	6.27	2.47

REPORT BY THE BOARD OF DIRECTORS AND PRESIDENT AND CEO

It is the opinion of the Board of Directors and the President and CEO of Ossur hf., that these Financial Statements present the necessary information to evaluate the financial position of the Company at year-end, the operating results for the year and financial developments during the year 2007. Ossur Financial Statements are prepared in accordance with International Financial reporting standards (IFRS) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies.

Ossur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics, bracing and support and compression therapy solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada, France, Holland, the UK, Sweden, China and Australia. The Company sells its products world wide, but the principal market areas are North America and Europe.

The total sales of the Ossur Consolidation amounted to USD 335.6 million, compared to USD 252.1 million in the preceding year. This represents an increase in sales of approximately 33%. Net profit amounted to USD 7.6 million

compared to USD 4.4 million in 2006. Earnings per Share (EPS) amounted to US cents 1.94 compared to US cents 1.13 in 2006. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 64.4 million compared to USD 39.5 million in the preceding year.

The total assets of the Ossur Consolidation amounted to USD 635.8 million at year-end, liabilities were 385.5 million, and equity was 250.3 million. The equity ratio at year-end was 39%, compared to 26% the preceding year.

In the course of the year the Company employed on average 1,617 employees, of which 250 were employed by the parent company in Iceland.

The Company increased share capital by USD 65.7 million during the year. The share price of the Company was 98.5 at year-end, compared to 113.0 at the beginning of the year. The market value of the Company at year-end was 672 million USD and increased 11% over the year. At year-end, shareholders in Ossur hf. numbered 2,842 compared to 2,956 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at

year-end: William Demant Invest A/S, with 34.3% and Eyrir Invest ehf. Holding 19.9%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company and Internal Rules of Procedure. The rules comply with the guideline on Corporate Governance issued by the Icelandic Stock Exchange, the Iceland Chamber of Commerce and SA-Confederation of Icelandic Employers. The Internal Rules address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee has not been set up within the Board and the Board itself handles all issues that would be decided by an Audit Committee. A Compensation Committee is present within the Board. The Compensation Committee decides on compensation for the President & CEO. No Ossur employees are sitting on the Board of Directors.

The Board of Directors does not recommend payment of dividends to shareholders in 2008. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur for the year 2007 with their signatures.

Reykjavik, 4 February 2008

Board of Directors

Niels Jacobsen

Chairman of the Board

Ossur Kristinsson
Kristjan T. Ragnarsson

Thordur Magnusson
Sigurbjorn Thorkelsson

President and CEO
Jon Sigurdsson

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and shareholders of Ossur hf.

We have audited the accompanying Consolidated Financial Statements of Ossur hf, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our own audit and the audit reports on the financial statements of the foreign subsidiaries of Ossur hf., the financial statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Reykjavik, 4 February 2008

Deloitte hf.

Sigurdur Pall Hauksson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2007 AND 2006

	NOTES	2007	2006
NET SALES	6	335,609	252,133
Cost of goods sold		(139,911)	(102,756)
GROSS PROFIT		195,698	149,377
Other income	9	12,033	530
Sales and marketing expenses		(85,553)	(67,620)
Research and development expenses		(20,176)	(17,925)
General and administrative expenses		(62,286)	(36,165)
Restructuring expenses		0	(8,453)
PROFIT FROM OPERATIONS		39,716	19,743
Financial income	12	10,590	243
Financial expenses	12	(42,253)	(20,845)
PROFIT (LOSS) BEFORE TAX		8,053	(859)
Income tax	13	(473)	5,219
NET PROFIT		7,580	4,360
EARNINGS PER SHARE	14		
Basic Earnings per Share		1.94	1.13
Diluted Earnings per Share		1.94	1.13

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2007	31.12.2006
NON-CURRENT ASSETS			
Property, plant and equipment	16	35,970	37,074
Goodwill	17	342,359	316,593
Other intangible assets	18	61,797	69,959
Financial assets	20	1,835	2,208
Deferred tax asset	28	61,603	63,485
		503,564	489,319
CURRENT ASSETS			
Inventories	21	54,277	47,376
Accounts receivables	22	47,405	49,147
Other receivables	22	10,706	14,732
Financial assets	20	713	0
Deferred tax asset	28	3,267	0
Bank balances and cash		15,889	12,178
		132,257	123,433
TOTAL ASSETS			
		635,821	612,752

31 DECEMBER 2007 AND 31 DECEMBER 2006

EQUITY AND LIABILITIES

	NOTES	31.12.2007	31.12.2006
EQUITY			
Issued capital	23	173,298	107,553
Reserves	24	24,307	8,990
Retained earnings	25	52,677	45,096
		250,282	161,639
NON-CURRENT LIABILITIES			
Borrowings	27	207,417	201,334
Deferred tax liabilities	28	28,826	33,204
Provisions	29	3,118	0
		239,361	234,538
CURRENT LIABILITIES			
Borrowings	27	91,578	163,815
Accounts payable		15,249	22,132
Deferred tax liabilities	28	1,778	0
Tax liabilities		3,566	2,301
Provisions	29	6,923	10,952
Other liabilities	30	27,084	17,375
		146,178	216,575
TOTAL EQUITY AND LIABILITIES		635,821	612,752

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2007 AND 2006

CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	2007	2006
Profit from operations		39,716	19,743
Depreciation and amortization	16, 18	24,676	19,750
Gain on disposal of assets		113	(28)
Changes in operating assets and liabilities		(2,977)	(6,779)
CASH GENERATED BY OPERATIONS		61,528	32,686
Interest received		10,554	208
Interest paid		(23,376)	(14,917)
Taxes paid		(3,005)	(1,989)
NET CASH PROVIDED BY OPERATING ACTIVITIES		45,701	15,988
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	16, 18	(7,126)	(10,953)
Proceeds from sale of fixed assets		266	257
Acquisition of subsidiaries	32	(10,842)	(169,416)
Changes in financial assets		(79)	1,060
		(17,781)	(179,052)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		0	153,072
Repayments of short-term borrowings		(87,693)	0
Proceeds from long-term borrowings		15,605	15,829
Repayments of long-term borrowings		(18,945)	(14,978)
Purchases of treasury stock		0	(712)
Paid in share capital	23	65,744	0
Exercised share options		0	986
		(25,289)	154,197
NET CHANGE IN CASH		2,631	(8,867)
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS		1,080	131
CASH AT BEGINNING OF YEAR		12,178	20,914
CASH AT END OF YEAR		15,889	12,178
Additional information regarding cash flow	15		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2007

	SHARE CAPITAL	SHARE PREMIUM	STATUTORY RESERVE	STOCK OPTION RESERVE	HEDGING RESERVE	TRANSLATION RESERVE	ACCUMULATED PROFITS	TOTAL EQUITY
Balance at 1 January 2006	4,160	103,119	1,043	0	0	3,771	40,736	152,829
Translation difference of shares in foreign companies						4,176		4,176
Net gains not recognised in the income statement	0	0	0	0	0	4,176	0	4,176
Purchases of treasury stock	(5)	(707)						(712)
Exercised share options	15	971						986
Net profit							4,360	4,360
Balance at 31 December 2006	4,170	103,383	1,043	0	0	7,947	45,096	161,639
Loss on hedge of a net investment in foreign operations						(10,599)		(10,599)
Gain on cash flow hedges					552			552
Translation difference of shares in foreign operations						25,031		25,031
Net gains not recognised in the income statement	0	0	0	0	552	14,432	0	14,985
Issue of ordinary shares	651	65,093						65,744
Change in stock option reserve				332				332
Net profit							7,580	7,580
Balance at 31 December 2007	4,821	168,477	1,043	332	552	22,379	52,677	250,282

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Ossur hf. is a global orthopaedics company, specializing in the development, manufacturing and sales of prosthetics, braces and support's and compression therapy products. The principal market areas of the Company are Americas, Europe, Middle East and Africa (EMEA) and Asia, which are served by companies in the United States, Canada, Sweden, the Netherlands, UK, France, Australia and China in addition to the Iceland-based parent company.

The main production of the Company is conducted at Ossur hf. in Iceland, Gibaud Group (La Tour Finance) in St. Etienne, Trevoux in France and at Ossur Americas in Michigan and California USA. Part of the production is outsourced to Asia.

According to the Company's organizational structure, the consolidation is divided into six divisions, i.e. Corporate Finance, responsible for overall financial management and global marketing; Manufacturing & Operations, responsible for all production, inventory management and distribution; Research & development, responsible for product development, product management and quality control; Ossur Americas, responsible for sales, marketing and distribution in America; Ossur Europe, responsible for sales, marketing and distribution in Europe, Middle East and Africa and Ossur Asia responsible for sales, marketing and distribution in Asia.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual re-

porting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (see note 31).

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements for Consolidated Financial Statements for listed companies.

3.2 BASIS OF PREPARATION

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

3.3 BASIS OF CONSOLIDATION

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the

effective date of acquisition as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.4 BUSINESS COMBINATION

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3.5 GOODWILL

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.6 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

SALE OF GOODS

Revenue from the sale of goods is recognised when all the following conditions are satisfied; the Company has

transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

ROYALTIES

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

INTEREST REVENUE

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3.7 LEASING

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis,

except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.8 FOREIGN CURRENCIES

The individual Financial Statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates in. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differ-

ences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.9 BORROWING COSTS

Debt issuance cost is capitalized and amortized over the term of the long-term loans, other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.10 PENSION OBLIGATION

Pension obligation is recognised at fair value in the balance sheet. Contributions to the Company's pension obligation is charged to the profit and loss account in the period vested.

3.11 TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

CURRENT TAX

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated Company's current tax liability is calculated using the tax rates for each country.

DEFERRED TAX

Deferred tax is recognised on differences between the

carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement

of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions are eliminated. This has an effect on the income tax expenses of the consolidated companies, and an adjustment is included in the deferred tax asset. Income tax expense is calculated in accordance with tax rates in the countries where the inventories originate.

3.12 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognised as an expense.

Assets held under finance leases are depreciated over their

expected useful lives on the same basis as owned assets. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.13 INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

INTERNALLY-GENERATED INTANGIBLE ASSETS

– RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development is recognised only if all of the following conditions are met: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred

from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.14 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-

generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.15 PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

RESTRUCTURINGS

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has started to implement it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

WARRANTIES

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

3.16 RISK MANAGEMENT

Financial risk management is governed by the Company's Financial Risk Management Policy, approved by the Board of Directors. The policy sets limits to the extent of financial risks and guidelines for financial transactions in general. The general policy is to apply natural currency hedging to the extent possible and prohibit any speculative trading of financial instruments.

Long term financing is managed from Corporate Finance and individual subsidiaries do not engage in substantial external financing contracts with banks and/or credit institutions.

The Company is outset for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

3.17 FINANCIAL ASSETS

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

LOANS AND RECEIVABLES

Account receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as account receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the companies average credit period, as well as observable changes

in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3.18 FINANCIAL LIABILITIES

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.19 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 31.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

HEDGE ACCOUNTING

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the

hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 24.

HEDGES OF NET INVESTMENTS

IN FOREIGN OPERATIONS

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5. QUARTERLY STATEMENTS

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	TOTAL
Net sales	80,380	88,037	82,322	84,870	335,609
Cost of goods sold	(34,393)	(34,916)	(33,561)	(37,041)	(139,911)
GROSS PROFIT	45,987	53,121	48,761	47,829	195,698
Other income	320	197	311	11,205	12,033
Sales and marketing expenses	(21,978)	(21,261)	(20,722)	(21,592)	(85,553)
Research and development expenses	(4,994)	(4,599)	(5,324)	(5,259)	(20,176)
General and administration expenses	(15,277)	(16,082)	(14,901)	(16,026)	(62,286)
PROFIT FROM OPERATIONS	4,058	11,376	8,125	16,157	39,716
Financial income	449	292	5,098	4,751	10,590
Financial expenses	(8,302)	(9,818)	(10,937)	(13,196)	(42,253)
PROFIT (LOSS) BEFORE TAX	(3,795)	1,850	2,286	7,712	8,053
Income tax	1,088	(367)	(130)	(1,064)	(473)
NET (LOSS) PROFIT	(2,707)	1,483	2,156	6,648	7,580

6. NET SALES

	2007	2006
Americas	162,025	156,867
EMEA	163,089	85,728
Asia	10,495	9,538
	335,609	252,133
Net sales are specified as follows according to currency:	2007	2006
US Dollar, USD	166,336	158,979
Euro, EUR	104,777	35,841
British Pound, GBP	26,099	21,857
Canadian Dollar, CAD	15,145	7,290
Swedish Krona, SEK	11,104	15,034
Norwegian Krona, NOK	6,097	6,655
Icelandic Krona, ISK	2,343	2,699
Japanese Yen, JPY	2,195	2,650
Swiss Franc, CHF	1,515	1,128
	335,609	252,133

7. GEOGRAPHICAL SEGMENTS

The Company uses geographical markets as its primary segments. Segment information is presented below, according to location of customers:

2007	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
REVENUE					
External sales	162,025	163,089	10,495	0	335,609
Inter-segment sales	19,875	62,216	1	(82,092)	0
Total revenue	181,900	225,305	10,496	(82,092)	335,609
Inter-segment sales are calculated from external sales prices.					
RESULT					
Segment result	13,938	24,333	240	1,205	39,716
Financial income/(expenses)					(31,663)
Profit before tax					8,053
Income tax					(473)
Net profit					7,580
OTHER INFORMATION					
Capital additions	2,939	3,991	196	0	7,126
Depreciation and amortization	16,505	8,138	33	0	24,676
BALANCE SHEET 31.12.2007					
ASSETS					
Segment assets	406,366	964,964	3,302	(738,811)	635,821
LIABILITIES					
Segment liabilities	297,307	602,016	3,555	(517,339)	385,539

2006

	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
REVENUE					
External sales	156,867	85,728	9,538	0	252,133
Inter-segment sales	16,148	72,111	0	(88,259)	0
Total revenue	173,015	157,839	9,538	(88,259)	252,133
RESULT					
Segment result	(1,075)	22,592	1,654	(3,428)	19,743
Financial income/(expenses)					(20,602)
Profit before tax					(859)
Income tax					5,219
Net profit					4,360
OTHER INFORMATION					
Capital additions	4,386	6,471	96	0	10,953
Depreciation and amortization	15,521	4,220	9	0	19,750
BALANCE SHEET 31.12.2006					
ASSETS					
Segment assets	386,960	740,722	3,924	(518,854)	612,752
LIABILITIES					
Segment liabilities	308,242	546,089	3,197	(406,415)	451,113

8. BUSINESS SEGMENTS

Current business segments for the Company are Prosthetics, Bracing and Support, Compression Therapy and other products. It is not possible to disclose assets according to business segments due to shared usage of assets.

Net sales are specified as follows according to product lines:

	2007	2006
Prosthetics	133,917	117,858
Bracing and Support	178,054	132,932
Compression Therapy (Phlebology)	19,107	0
Other products	4,531	1,343
	335,609	252,133

9. OTHER INCOME

Included in other income is a gain amounting to USD 7.6 million relating to sale of an option to buy the company's headquarters facilities in Iceland according to a lease agreement from 1997.

Also included in other income is a payment of a settlement reached in 2006 regarding a breach of Ossur patent amounting to USD 3.4 million. The revenue due to this settlement has not been recognised before due to uncertainty of payment as the company involved had applied for bankruptcy.

10. SALARIES

Salaries and salary-related expenses, paid by the consolidation, are specified as follows:

	2007	2006
Salaries	82,593	57,799
Salary-related expenses	30,650	20,548
	113,244	78,347
Average number of positions	1,617	1,190

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

	2007	2006
Cost of goods sold	37,526	26,676
Sales and marketing	43,478	29,802
Research and development	7,993	7,678
General and administrative	24,247	14,191
	113,244	78,347

MANAGEMENT SALARIES AND BENEFITS

	SALARIES AND RELATED EXP.	STOCK OPTIONS	SHARES OWNED
BOARD OF DIRECTORS:			
Niels Jacobsen Chairman of the Board	50	0	0
Thordur Magnusson Vice Chairman (i)	30	0	84,040,215
Ossur Kristinsson (ii)	65	0	37,526,769
Kristjan Tomas Ragnarsson	20	0	569,539
Sigurbjorn Thorkelsson	20	0	528,184
EXECUTIVE COMMITTEE:			
Jon Sigurdsson President and CEO	978,083	1,250,000	24,458,841
Hjorleifur Palsson CFO	346,236	308,000	1,000,000
Egill Jonsson VP of Manufacturing & Operations	316,075	308,000	18,499
Arni Alvar Arason VP of Sales and Marketing	315,380	308,000	2,124,450
Hilmar Bragi Janusson VP of R&D	349,801	308,000	3,660,347
Eythor Bender Presid. of Ossur North America	353,020	308,000	2,027,900
Olafur Gylfason Man. Director of Ossur Europe	294,180	308,000	476,368

The shares owned by members of the board and executive committee are either owned by them personally or through holding companies.

- (i) Shares owned by Eyrir Invest ehf. of which Thordur Magnusson owns 36% and is the Chairman of the Board.
- (ii) Shares owned by Mallard Holding which is owned by the founder of the company Ossur Kristinsson and his family.

11. FEES TO AUDITORS

	2007	2006
Audit of financial statements	730	436
Review of interim financial statements	416	289
Other services	229	620
	1,375	1,345

12. FINANCIAL INCOME / (EXPENSES)

Interest income and (expenses) are specified as follows:

	2007	2006
FINANCIAL INCOME:		
Bank deposit	1,527	97
Income from financial assets	346	56
Other interest income	17	89
	1,890	243
Fair value changes of derivatives	8,700	0
	10,590	243

FINANCE COSTS:

Interest on bank overdrafts and loans	(25,167)	(15,084)
Interest on obligations under finance leases	0	(12)
Other interest expenses	(551)	(170)
	(25,718)	(15,266)
Exchange rate differences	(16,535)	(5,579)
	(42,253)	(20,845)

The Company holds derivative financial instruments to hedge part of its foreign currency and interest rate risk exposures. The principal derivative instruments used are foreign currency swaps and interest rate swaps.

13. INCOME TAX

Income tax is specified as follows:

	2007	2006
Current tax expenses	(5,543)	(639)
Deferred tax revenue	5,070	6,220
Exchange rate difference	0	(362)
	(473)	5,219

	2007	2006		
	AMOUNT	%	AMOUNT	%
Profit (loss) before taxes	8,053		(859)	
Income tax revenue calculated at 18%	(1,449)	18%	155	18%
Effect of different tax rates of other jurisdictions	4,226	(52%)	6,590	767%
Deductable expenses accounted in equity	0	0%	(582)	(68%)
Effect of nondeductable expenses/revenues	(837)	10%	2	0%
Effect of change in tax rate	(2,628)	33%	(56)	(7%)
Effect of previously recognised tax loss reversed	(275)	3%	0	0%
Other changes	490	(6%)	(890)	(104%)
	(473)	6%	5,219	608%

14. EARNINGS PER SHARE

The calculation of Earnings per Share is based on the following data:

	2007	2006
Net profit	7,580	4,360
Total average number of shares outstanding during the year (in thousands)	394,405	384,430
Total average number of shares including potential shares (in thousands)	391,295	384,430
Basic Earnings per Share (US cent)	1.94	1.13
Diluted Earnings per Share (US cent)	1.94	1.13
Cash Earnings per Share	8.24	6.27
Diluted Cash Earnings per Share	8.24	6.27

15. ADDITIONAL INFORMATION REGARDING CASH FLOW

	2007	2006
Net profit	7,580	4,360
Items not affecting cash	36,411	20,303
Working capital provided by operating activities	43,991	24,663
Increase in inventories	(7,423)	(8,394)
Decrease / (increase) in receivables	5,454	(10,999)
Increase in payables	3,679	10,718
Net cash provided by operating activities	45,701	15,988

16. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets are specified as follows:

	BUILDINGS AND SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
COST				
At 1 January 2007	15,685	30,793	23,781	70,259
Reclassification	(12)	(3)	15	0
Additions	109	2,595	4,273	6,977
Acquired on acquisition of subsidiary	0	108	7	115
Exchange differences	1,492	1,613	654	3,759
Eliminated on disposal	0	(565)	(494)	(1,058)
Fully depreciated assets	0	(256)	(55)	(311)
At 31 December 2007	17,274	34,286	28,182	79,742
ACCUMULATED DEPRECIATION				
At 1 January 2007	7,067	16,739	9,379	33,186
Reclassification	(22)	(407)	429	0
Charge for the year	529	3,579	4,921	9,029
Exchange differences	777	1,449	380	2,607
Eliminated on disposal	0	(374)	(366)	(739)
Fully depreciated assets	0	(256)	(54)	(310)
At 31 December 2007	8,351	20,731	14,690	43,772
CARRYING AMOUNT				
At 31 December 2007	8,923	13,555	13,492	35,970
At 31 December 2006	8,618	14,054	14,402	37,074

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation classified by operational category, is shown in the following schedule:

	2007	2006
Cost of goods sold	3,027	2,982
Sales and marketing expenses	320	333
Research and development expenses	236	271
General and administrative expenses	5,447	2,977
	<hr/> 9,029	<hr/> 6,563

The following rates are used for the depreciation:

Buildings & sites	2 to 5%
Machinery & equipment	10 to 20%
Fixtures & office equipment	10 to 34%

17. GOODWILL

31.12.2007

COST	
At 1 January 2007	316,593
Arising on acquisition of subsidiaries	7,186
Addition due to previous acquisitions	1,038
Exchange differences	17,542
<hr/> At 31 December 2007	<hr/> 342,359
CARRYING AMOUNT	
At 31 December 2007	342,359
<hr/> At 31 December 2006	<hr/> 316,593

18. OTHER INTANGIBLE ASSETS

	CUST./DISTRIB. RELATIONSHIP	PATENT	TRADEMARK	OTHER	TOTAL
COST					
At 1 January 2007	0	15,678	25,982	49,455	91,116
Additions	0	118	17	14	149
Reclassification	24,257	116	8,312	(32,685)	0
Arising on acquisition of subsidiary	3,260	14	34	0	3,308
Exchange differences	2,214	688	1,962	0	4,864
At 31 December 2007	29,731	16,614	36,307	16,784	99,437
AMORTIZATION					
At 1 January 2007	0	5,443	1,801	13,913	21,157
Charge for the year	8,800	2,621	1,282	2,944	15,647
Reclassification	4,901	0	2,432	(7,333)	0
Exchange differences	396	387	53	0	836
At 31 December 2007	14,097	8,451	5,568	9,524	37,640
CARRYING AMOUNT					
At 31 December 2007	15,634	8,163	30,739	7,260	61,797
At 31 December 2006	0	10,235	24,181	35,542	69,959

The intangible assets included above have finite useful lives, over which the assets are amortized. Amortization classified by operational category, is shown in the following schedule:

	2007	2006
Cost of goods sold	456	246
Sales and marketing expenses	7,258	7,172
Research and development expenses	4,418	4,321
General and administrative expenses	3,515	1,448
	15,647	13,187

These intangible assets will be amortized on a straight line basis over their useful lives. The amortization charge for each period is recognised as expense on the following bases:

Customer and distribution relationship	20 to 30%
Patent	2 to 20%
Trademark	5 to 35%
Other	10 to 35%

19. THE CONSOLIDATION

NAME OF SUBSIDIARY	PLACE OF REGISTRATION AND OPERATION	OWNERSHIP %	PRINCIPAL ACTIVITY
Ossur Holding, AB	Sweden	100%	Holding
Ossur Nordic, AB	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Ossur Americas Holdings, Inc.	USA	100%	Holding
Ossur Americas, Inc.	USA	100%	Manufacturer, sales, distribution and services
Rigid Med. Techn., Inc	USA	100%	Services
Empower Business Sol, Inc	USA	100%	Healthcare consulting
Ossur Canada, Inc.	Canada	100%	Manufacturer, sales, distribution and services
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services
Ossur UK, Holdings, Ltd	UK	100%	Holding
IMP Holdings, Ltd	UK	100%	Holding
Ossur UK, Ltd	UK	100%	Sales, distribution and services
TIM Holdings, Ltd	UK	100%	Holding
TIM, Ltd	UK	100%	Distribution and services
IMP, Ltd	UK	100%	R&D and manufacturer
Ortex, Ltd.	UK	100%	Manufacturing
Ossur Holding France (SAS)	France	100%	Holding
Gibaud Pharma (EURL)	France	100%	Immaterial Operations
Gibaud (SAS)	France	100%	Manufacturer, sales, distribution and services
Derby Finances (SAS)	France	50%	No operation
Tournier Bottu (SAS)	France	100%	Manufacturing
Gibaud Espania (SA)	Spain	100%	Sales, distribution and services
Gibaud Suisse (SA)	Swiss	100%	Sales, distribution and services
Ossur Asia Pacific PTY, Ltd.	Australia	100%	Sales, distribution and services
Ossur Prosth. & Rehabilit. Co, Ltd.	China	100%	Manufacturer, sales, distribution and services
Gentleheal ehf.	Iceland	100%	Manufacturer and sales

Ossur hf. operates a finance branch in Switzerland to govern intercompany long-term liabilities. On 7 February 2007 Ossur acquired Somas Orthoepaedie BV and Somas International BV in Netherlands. Somas has been merged in to Ossur Europe BV. Ossur Americas Holdings, Inc. (formerly Ossur Holdings, Inc.) merged the majority of its legal entities into its wholly owned subsidiary Ossur Americas, Inc. (formerly Ossur North America, Inc.). GBM Medical AB has been merged into Ossur Nordic AB, GII Holding Belgium has been legally dissolved and Medistox name was changed to Ossur UK Ltd. Generation II Orthotics, Inc was renamed Ossur Canada, Inc.

20. FINANCIAL ASSETS

	CURRENT		NON-CURRENT	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Derivatives designated and effective as hedging instruments carried at fair value				
Interest rate swaps	0	0	552	0
Financial assets carried at fair value through profit or loss (FVTPL)				
Non-derivative financial assets	0	0	1,283	1,526
Held for trading non-derivative financial assets	713	0	0	682
	713	0	1,283	2,208
	713	0	1,835	2,208

21. INVENTORIES

	31.12.2007	31.12.2006
Raw material	18,151	17,600
Work in progress	4,497	2,409
Finished goods	31,629	27,367
	54,277	47,376

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 10,858 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,835 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The Company has pledged all inventories to secure general banking facilities granted to the Company.

22. ACCOUNTS AND OTHER RECEIVABLES

	31.12.2007	31.12.2006
Nominal value	51,915	51,024
Allowances for doubtful accounts	(3,794)	(1,162)
Allowances for sales return	(716)	(715)
		47,405
		49,147

The average credit period on sales of goods is 50 days. Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. The directors consider that the carrying amount of receivables approximates their fair value.

Aging of accounts receivables

	31.12.2007	31.12.2006
0 – 60 days	40,724	39,591
60 – 90 days	4,317	4,944
Older than 90 days	6,874	6,488
		51,915
		51,024

Movement in the allowance for doubtful accounts

	2007	2006
At 1 January	(1,162)	(963)
Impairment losses recognised on receivables	(2,781)	(496)
Amounts written off as uncollectible	208	339
Exchange rate difference	(59)	(42)
At 31 December	(3,794)	(1,162)

22. ACCOUNTS AND OTHER RECEIVABLES (CONTINUED)

In determining the recoverability of accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

	31.12.2007	31.12.2006
VAT refundable	1,228	1,501
Prepaid expenses	5,257	5,594
Other	4,221	7,637
	10,706	14,732

23. ISSUED CAPITAL

Common stock is as follows in millions of shares and USD thousands:

	SHARES	NOMINAL VALUE
Total share capital at year-end	423.0	4,821
Shares issued and outstanding at year-end totalled of 423,000,000. The nominal value of each share is one Icelandic krona.		
Changes in share capital are as follows:	SHARE CAPITAL	SHARE PREMIUM
Balance as of 1 January 2006	4,160	103,119
Purchases of treasury stock	(5)	(707)
Exercised share options	15	971
Share capital as of 1 January 2007	4,170	103,383
Issue of ordinary shares	651	65,093
Balance at 31 December 2007	4,821	168,477
		173,298

24. RESERVES

	STATUTORY RESERVE	HEDGING RESERVE	SHARE OPTION RESERVE	TRANS- LATION RESERVE	TOTAL RESERVES
Balance at 1 January 2006	1,043	0	0	3,771	4,814
Transl. diff. of foreign operations	0	0	0	4,176	4,176
Balance at 1 January 2007	1,043	0	0	7,947	8,990
Gain on cash flow hedges	0	552	0	0	552
Charge for the year	0	0	332	0	332
Loss on hedge of a net investment	0	0	0	(10,599)	(10,599)
Transl. diff. of foreign operations	0	0	0	25,031	25,031
Balance at 31 December 2007	1,043	552	332	22,379	24,307

Exchange differences relating to the translation from the functional currencies of the Company's foreign subsidiaries into Currency Units are brought to account by entries made directly to the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedges on net investments in foreign operations are included in the translation reserve.

25. RETAINED EARNINGS

	RETAINED EARNINGS
At 1 January 2006	40,736
Net profit	4,360
At 1 January 2007	45,096
Net profit	7,580
At 31 December 2007	52,677

26. STOCK OPTION CONTRACTS AND OBLIGATIONS TO INCREASE SHARE CAPITAL

At 7 February 2007 the board agreed new stock option agreements for the CEO and the six members of the Executive Committee. The key terms of these agreements were that the CEO is granted an option to purchase 1,250,000 shares of common stock and each member of the Executive Committee is granted an option to purchase 308,000 shares of common stock.

The total number of shares to be provided is 3,098,000 or 0.74% of the Company's current outstanding stock capital.

These options will vest during the month of December 2011. The contract rate is ISK 113.4 per share, calculated as the average of the Company's share price during the last 20 working days prior to the annual general meeting dated 23 February 2007. Estimated costs due to the stock option contracts are USD 1.7 million which will be expensed over the next four years. During the year a total expense of 332 thousand was recognized in the Income Statement.

	NUMBER	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
Issued 5 February 2007	1,848,000	2.5.07	12.1.11	113.4	109.5
Issued 8 February 2007	1,250,000	2.5.07	12.1.11	113.4	109.0

The employee must remain continuously employed with Ossur until expiring date, either as an employee or in any other way, deemed satisfactory by the Company.

	1.1-31.12 2007		1.1-31.12 2006	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)
Granted during the year	3,098	113.40	0	0
Outstanding at the end of the year	3,098	113.40	0	0

27. BORROWINGS

Secured – at amortised cost	CURRENT		NON-CURRENT	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Bank overdrafts	1,444	16,540	0	0
Loans in USD	9,889	9,836	130,218	134,166
Loans in EUR	5,878	5,253	77,099	64,449
Other borrowings	307	242	100	2,719
Bridge loan	74,060	131,944	0	0
At 31 December 2007	91,578	163,815	207,417	201,334

SUMMARY OF BORROWING ARRANGEMENTS

The Company's major credit facility was entered into in 2005. The term loan facility was originally in the amount of USD 200 million and was increased by USD 40 million in 2006 and USD 15.5 million in 2007 to finance acquisitions. The term loan consists of an amortizing loan maturing in 2010 and bullet loans amortizing in 2011 and 2012. Approximately 63% of the total term loan is in USD and 37% in EUR.

In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. Proceeds from the Company's equity offering in November 2007 as well as excess cash were used to partially repay the bridge loan facility in the fourth quarter of 2007. The outstanding amount of EUR 50.3 million (USD 74.0) is included in the Company's current liabilities at the end of the year.

From July 1st 2007, the bridge loan is acknowledged as a hedge against the net investments in Gibaud Group. Any gain or loss from the hedging instrument relating to the effective portion of the hedge is recognised in the hedging reserve within the Company's equity.

The terms of the loan facilities include various provisions that limit certain actions by the Company without prior consulting with the lender. In addition, the loan facilities include certain financial covenants. The Company has pledged certain assets, including buildings, machinery, equipment and inventories to secure banking facilities granted.

The average interest rate in 2007 was 6.07% (2006: 5.97%).

27. BORROWINGS (CONTINUED)

Debt issuance cost has been capitalized and is amortized over the term of the loan. The remaining amount is USD 2.4 million at year-end.

Ossur uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of USD 140 million and of EUR 48.6 million have been made to swap floating interest rates to weighted average fixed interest rates of 5.99 including margin for periods up until 2012.

During the year a total gain of USD 847 thousand was recognized in the Income Statement due to the swap agreements.

28. DEFERRED TAX ASSET / (LIABILITY)

	31.12.2007	31.12.2006
At 1 January	30,281	(4,290)
Arising on acquisition of a subsidiary	(879)	(7,073)
Reclassification of Goodwill to tax asset	0	35,862
Calculated tax for the year	(473)	5,219
Income tax payable for the year	5,548	603
Exchange differences	(211)	(40)
At 31 December	34,266	30,281

The following are the major deferred tax liabilities and assets recognised:

	ASSETS	LIABILITIES	NET
Goodwill	44,706	0	44,706
Intangible assets	0	(30,988)	(30,988)
Operating fixed assets	1,366	(914)	452
Tax loss carry forward	6,180	0	6,180
Inventories	3,465	(25)	3,440
Current liabilities	7,199	0	7,199
Other	3,683	(406)	3,277
Total tax assets/liabilities	66,599	(32,333)	34,266
Tax asset and liabilities offsetting	(1,729)	1,729	0
Total	64,870	(30,604)	34,266

Deferred tax assets / liabilities as shown in the balance sheet:

Non Current asset / liabilities	61,603	(28,826)
Current deferred tax asset / liabilities	3,267	(1,778)
	64,870	(30,604)

29. PROVISIONS

	CURRENT		NON-CURRENT	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Warranty ⁽ⁱ⁾	2,212	2,745	1,982	0
Restructuring ⁽ⁱⁱ⁾	3,788	8,207	0	0
Other	1,288	0	771	0
	7,288	10,952	2,753	0

- (i) The warranty provision represents management's best estimate of the Company's liability under warranties granted on prosthetics products, based on past experience and industry averages for defective products.
- (ii) The restructuring provision is related to the acquisition of Gibaud in December 2006.

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL
At 1 January 2007	2,745	7,059	1,148	10,952
Additional provision recognised	1,836	0	776	2,612
Utilization of provision	(387)	(4,460)	0	(4,847)
Exchange differences	0	1,189	135	1,324
At 31 December 2007	4,194	3,788	2,059	10,041

30. OTHER LIABILITIES

	CURRENT	
	31.12.2007	31.12.2006
Accrued expenses	6,019	2,199
Accrued salaries and related expenses	14,239	8,756
Royalties	1,296	963
Vat	2,399	3
Other	3,131	5,454
	27,084	17,375

All amounts in thousands of USD

31. FINANCIAL INSTRUMENTS

34.1 CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2006.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 23, 24 and 25 respectively.

EQUITY RATIO

The Company's management continuously reviews the capital structure. As part of this review, the management considers the cost of capital. The Company has a target equity ratio of minimum 30% determined as the proportion of equity to total assets.

The equity ratio at the year-end was as follows:

	31.12.2007	31.12.2006
Equity	250,282	161,639
Total assets	635,821	612,752
Equity ratio	39.4%	26.4%

34.2 SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

34.3 FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company's Corporate finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

31. FINANCIAL INSTRUMENTS (CONTINUED)

The Company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

34.4 FOREIGN CURRENCY RISK MANAGEMENT

The Company operates on a global market hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The general policy is to apply natural exchange rate hedging to the extent possible but the Company also utilizes forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	LIABILITIES		ASSETS	
	2007	2006	2007	2006
USD	152,462	178,809	58,188	63,136
EUR	174,612	217,605	50,268	44,761
GBP	3,831	3,988	8,414	6,786
SEK	3,608	3,111	8,484	7,991
CAD	1,285	19	3,207	2,107
Other	9,096	3,424	2,265	860
	344,894	406,957	130,825	125,642

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Company is mainly exposed to the currency of Iceland (ISK) and the European Union (EUR).

The following table details the Company's sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where USD weakens 10% against the relevant cur-

rency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	EUR	2006	2007	ISK	2006
	2007	2006	2007	2006	2006
Profit or loss	(i) 1,534	(i) 1,006	(iii) (2,939)	*iii(3,002)	
Other equity	(ii) 3,654	(ii) (4,416)	(400)	(292)	

(i) 26% of the Company's cost is in EUR against 30% of its income causing an increase in profit if the USD decreases against the EUR.

(ii) An installment of 50 million EUR (72 million USD) bridge loan in 2007 is the main reason for difference in the Company's sensitivity for the EUR between years in other equity.

(iii) This is attributable to the fact that approximately 10% of the Company's operating cost is in ISK against 1% of its income.

FORWARD FOREIGN EXCHANGE CONTRACTS

There are no forward foreign exchange contracts outstanding at the end of 2007. During the year, the Company entered into two foreign exchange contracts to hedge the exchange rate risk on the Euro dominated part of its long term liabilities. These contracts were closed prior to maturity date with a gain of USD 8.7 million, which is reported as fair value changes of derivatives in financial income.

31.5 INTEREST RATE RISK MANAGEMENT

The Company is exposed to interest rate risk as funds are mainly borrowed at floating interest rates. Interest rate risk is managed by Corporate Treasury by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Contracts with nominal values of USD 140 million and EUR 48.6 million have been made

to swap floating interest rates to fixed with an average weighted interest rate of 5.99% including margin for periods up to 2012. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

Outstanding interest rate swap contracts (cash flow hedge) at 31 December 2007 are due in 2 to 5 years. The contracts fair value is USD 552 thousand and principal amount USD 212 million.

31.6 LIQUIDITY RISK MANAGEMENT

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At year-end the Company had undrawn revolving credit facilities at its disposal amounting to USD 28.6 millions to further reduce liquidity risk.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	WEIGHTED AVERAGE EFFECTIVE INTEREST	LESS THAN 1 YEAR			5+ YEARS	TOTAL
		1 YEAR	1-5 YEARS	5+ YEARS		
2007						
Borrowings	6.07%	109,721	198,244	54,676	362,641	
Non-interest bearing liabilities	–	45,899	0	0	45,899	
		155,620	198,244	54,676	408,540	
2006						
Borrowings	5.97%	185,600	130,003	151,169	466,773	
Non-interest bearing liabilities	–	41,808	0	0	41,808	
		227,408	130,003	151,169	508,581	

All amounts in thousands of USD

32. ACQUISITION OF SOMAS

On 7 February 2007 Ossur's subsidiary Ossur Europe BV acquired 100 per cent of the issued share capital of Somas Orthopadie BV and Somas International BV for a cash consideration of USD 11 million. This transaction has been accounted for by the purchase method of accounting.

ACQUISITION
2.7.07

NET ASSETS ACQUIRED:

Operating fixed assets	90
Trademarks	34
Customer relationship	3,260
Other intangible assets	14
Inventories	732
Other current assets	1,224
Bank balances and cash	213
Deferred tax liability	(879)
Current liabilities	(819)
	3,869
Goodwill	7,186
Total consideration satisfied with cash	11,055

NET CASH OUTFLOW ARISING ON ACQUISITION:

Cash consideration	11,055
Bank balances and cash acquired	(213)
	10,842

Somas International BV contributed USD 2,321 thousand of revenue for the period between the date of acquisition and the balance sheet date.

33. OPERATING LEASE ARRANGEMENTS

Payments recognised as an expense:

	2007	2006
Minimum lease payments	7,645	5,739
Non-cancellable operating lease commitments	31.12.2007	31.12.2006
Not longer than 1 year	7,838	5,104
Longer than 1 year and not longer than 5 years	20,418	14,287
Longer than 5 years	15,760	7,256
	44,016	26,647

Operating lease payments represent rentals payable by the consolidation for certain of its office properties and cars. Forty five rental agreements are in place for premises in Reykjavik, Netherlands, Germany, Canada, Australia, Sweden, the United Kingdom, China and the United States. The leases expire in the years 2008–2018.

34. LITIGATION

On 5 December 2006, Ossur hf., parent company of Ossur North America Inc. and Royce Medical Inc., Ossur America's predecessor companies, disclosed to the Office of Inspector General of the U.S. Department of Defense that Ossur North America, Inc. and Royce Medical Company may have made some sales to the government that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review was conducted by third party experts of the sales and the circumstances surrounding the sales. The review's conclusions were sent in a report to the Inspector General of the Department of Defense in the last quarter of 2007. The likely outcome of this matter remains uncertain.

Following a patent infringement challenge by Mölnlycke Health Care when Ossur began its marketing efforts of Gentleheal® wound care product, Ossur filed a Declaration of Non-Infringement legal action in May, 2004 against Mölnlycke in Stockholm, requesting the Court to determine that the Gentleheal product did not infringe Mölnlycke's European patent. Mölnlycke has denied Ossur's claim. The case is litigated in Swedish court, but the scope includes all seven jurisdictions where the patent is valid i.e. Sweden, Germany, Italy, Spain, France, Belgium and the United Kingdom. After the introduction of Gentle-

heal at the tradeshow in Atlanta, GA in April 2006, Mölnlycke filed a complaint against Ossur's distributor Medline and Ossur North America, alleging infringement of their US patent, belonging to the same patent family as the European patent that is the object of the Swedish litigation. On 21 June, 2007, the Court issued a Claim Construction Order. At the date of this report, fact discovery is largely concluded. The parties are currently in the expert discovery stages of the litigation.

In 2005, plaintiffs filed a complaint in the Circuit Court of the Seventh Judicial Circuit, Sangamon County, in Springfield Illinois (US) against numerous defendants, including Philadelphia Cervical Collar Company Inc. (PCCC), a wholly-owned subsidiary of Ossur Americas, Inc., of which Ossur hf. is the parent company. The complaint alleges that plaintiffs sustained severe physical injuries from the medical treatment received at St. John's Hospital in Springfield on 11 January 2005 following a traffic accident. As part of his medical treatment, plaintiff was placed in a cervical collar manufactured by PCCC. Plaintiff claims that the collar was defectively designed and that PCCC failed to adequately instruct on its proper use. While the complaint alleges damages "in excess of 50 thousand USD," a subsequent settlement demand from plaintiff to all defendants seeks a material sum in damages, possibly exceeding PCCC's product liability insurance.

All cases are in progress.

35. INSURANCE

	INSURANCE VALUE	BOOK VALUE
Fixed assets and inventories	127,135,031	101,286,402

The consolidation has purchase business interruption insurance intended compensate for temporary breakdown of operations. The insurance amount is USD 287 million.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 4 February 2008.



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