FAST FORWARD

Welcome to another chapter in the Ossur journey. 2003 saw our entry into new territory, with our product range growing and our technology platform again rising.

Last year's focus was firmly on the future. Intense research and product development went hand-in-hand with ventures into promising new arenas. The roll out of our own orthotics program began in September, complemented by the acquisition of knee-brace specialist Generation II. In the latter we have secured both a new product offering and a powerful marketing vehicle for North America.

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Demographic trends in all Ossur's major markets confirm growing demand across the O&P field. Greater incidence of the diseases necessitating the use of orthotic and prosthetic devices is widely forecast, a dilemma for which technological advancement is a vital solution.

On the other side of this equation some difficulties remain with the US economy. Globally, cost-containment efforts across the entire healthcare sector have inevitably taken a bite out of our growth. In driving down costs of products and components, however, recognition of the overall socio-economic costs entailed in lack of mobility appears to be lacking. Our industry has a clear role to play in confronting this policy and communicating the very real cost-benefit ratios of our products more widely.

FROM STRENGTH TO STRENGTH

Ossur is steadily exploiting the synergy effects of its business strategy. Our carbon fiber technology has injected new dynamism into orthotic products, while the company's silicone expertise enters the field of wound care this year. The Gentleheal range of chronic wound dressings utilizes our processing expertise for this unique material and its total compatibility with human skin.

Alongside orthotics, new products in 2003 included Junior Solution - the first complete lower limb system for children. New Flex-Foot modules, an improved Total Knee range and Elation, a foot with heel height adjustability, have all been extremely well received. The acquisition last July of a Swedish company, Linea Orthopedics AB, means that Ossur now also offers a world-class selection of cosmetic hands and gloves.

A key product for 2004 is the recently released ICEROSS Seal-In Liner. The latest innovation from the Iceross line revolutionizes suspension systems for amputees and certainly represents a taste of things to come in terms of new, proprietary technology.

INTENT ON INVESTMENT

Innovation requires investment. A deliberate increase in R&D spending last year is elevating Ossur products to a totally new level of technology. It is also securing future rewards in the development of the electronic knee, bionics and motorized components.

We are categorically protecting current investments, too. A new management team has been installed in North America, tackling the regional slow-down in growth. Ensuring the widest access to our product portfolio, the team is also developing new tactics to combat competitors' activities that have led to some temporary turbulence in the local market.

The settlement last year of a serious patent infringement in the US sent a clear message to the industry, drawing an impregnable line around our intellectual property. With more than 58 US patent applications pending, proprietary technology will play an important role in the generation of future revenues.

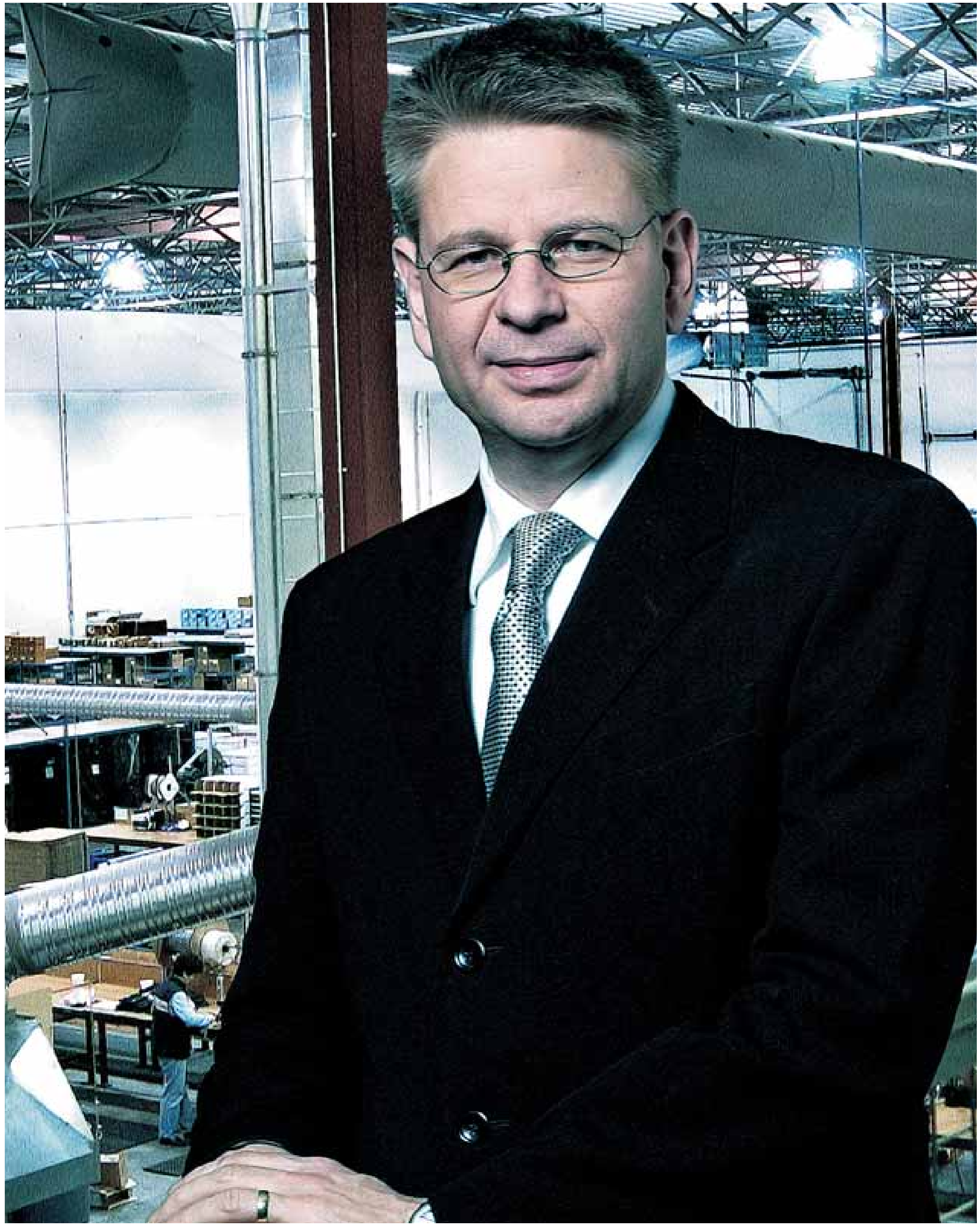
For the second year running, Ossur is proud to have been awarded the Nordic Investor Relations award. While we are certainly honored to be recognized in the same forum as companies like Nokia, we are not complacent and will persevere in cementing our relationship with investors.

DELIVERING RESULTS

Following Ossur's choice to invest in the future, a greater proportion of growth this year is external. New branches of our business are clearly adding to the company's strength and value, and this year we will see them start to bear fruit.

Last year I fulfilled a personal quest to scale the peaks of Mount Kilimanjaro in Africa, a challenging and rewarding expedition. This year, from its own well-established base-camp, Ossur will pursue a clearly defined path of growth. As you browse through this report, I hope you will see the foothills of achievement leading to ambitious new heights.

Jon Sigurdsson
President and CEO



MISSION STATEMENT

Össur is a global medical device company with strong roots in the prosthetic industry. In our business areas we focus on being the principal source of innovative products and services, enabling people to lead a Life without Limitations.

QUALITY POLICY
We provide products and services exceeding customers' expectations.

Strongly focused on continuous improvement, we monitor and respond to needs, complying with all regulatory requirements.

CORE VALUES

CUSTOMER ORIENTATION Our customers are the focus of everything we do.

QUALITY We will continue to set industry standards by exceeding our customers' expectations of quality in the products and services we deliver.

INNOVATION Through intensive R&D, successful commercialization strategies, advocacy and leadership, we will remain committed to continuous improvement.

AMBITION We are an ambitious company. Ambition characterizes everything we do, and we look for partnering opportunities with other ambitious companies and individuals.

PROFITABLE We strive to operate efficiently and cost-effectively - without compromising the quality of products and services - to ensure that all of our stakeholders receive significant value from their relationship with us.

RESPECT We value treating each individual with dignity and respect. We foster goodwill, understanding and equal treatment for all. We make sure that we comply with all regulatory requirements.

TEAMWORK We believe that collaboration and support among individuals, departments and associations benefit all by fostering creative thinking and efficiency in attaining mutual goals.

OBJECTIVES

If a company intends to achieve results it must first establish a clear set of objectives. Össur lays down ambitious goals for itself which serve as a guideline for all the Company's activities. For a number of years, each division has set its own goals, and this has become one of the fixed tasks of the divisions. The objectives are subjected to regular review to monitor where they stand and what needs to be done to achieve them. The method used to establish goals for the company is based on the Balanced Scorecard System.

FINANCIAL GOALS

1

Create shareholder value - increase earnings per share by 15% each year on average. Össur is committed to achieving returns for shareholders permitting steady growth and increased shareholder value.

2

Expand the Company's business to USD 180 million in sales by the end of 2006. In light of its high gross margin, Össur will emphasize an aggressive growth strategy, building on its current sales and marketing network to expand its activities into new markets and attract new customers.

3

Ensure profitable operation by an EBITDA margin of 20%. An important element in our growth strategy is to grow profitably and secure sufficient earnings from our business operations to contribute to steady growth in net profit and thereby earnings per share.

OSSUR JUNIOR SOLUTION

In November 2003, Ossur introduced the first comprehensive total solution for children, the Ossur Junior Solution. The product line consists of a carbon fibre foot, a knee, silicon liner and adapters. This is the first time that a new product range is developed for children taking into account their own requirements for efficiency and appearance.

The technology featured in the products will increase children's mobility from the age of five and reduce physical strain in normal activities and sports and in their games with their peers. It is extremely important for children who use prosthetics to obtain the right solutions at the earliest possible stage to enable them to gain better control of their bodies and develop proper posture and motion, which is crucial for correct back alignment and skeletal structure.

In preparing and developing the Junior Solution, Ossur's R&D division worked closely with prosthetists specialising in work with children and four kids aged 7 to 10. This team of children and prosthetists joined in the development process and made it possible for designers to establish their product specifications based on the children's needs. The children participated in testing various different solutions and provided feedback under the guidance of Ossur experts and prosthetists.

THE MARKET

In a changing industry, where innovation and rapid technological development are key factors, Ossur maintains its position as a leading company. In line with the company's strategic plans, carefully developed over the past few years, Ossur has in 2003 made its entry into orthotics market, introducing a new range of products and acquiring Generation II, a well-known brand in the orthotics industry. Both the orthotics and prosthetics market (O&P) are part of the broader industry of orthopedic products.

Greater mobility, independence and comfort for prosthetic and orthotic users are always very much in demand. At the same time healthcare providers, finding themselves constrained by budgets and priorities, demand cost-effective solutions. Opting for cost-effective solutions does not mean that manufacturers and users will have to settle for cheaper products of lower quality. Added to this are the demands of the regulatory environment; prosthetic and orthotic devices are subject to the many laws and complex regulations governing healthcare industry.

Ossur is meeting these challenges with continuing record investment in research and development, bringing new, exciting products to the market and offering superior service and training to our customers.

PROSTHETICS

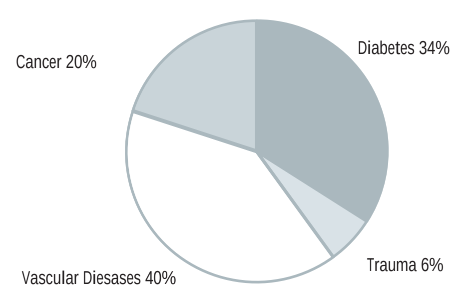
Peripheral vascular diseases and diabetes largely cause the necessity for amputation. Any decrease in amputations due to these diseases as a result of intervention programs are likely to be offset by proportional increases in older, higher risk age groups. Other causes of amputation are osteogenic sarcoma (cancer) and trauma. The ratio of trauma amputees is considerably higher in developing countries. Estimates show that over 80% of all amputees are lower-limb amputees, and that the majority of people losing limbs are aged 51 and older.

Current lifestyle patterns and changing demographics in the Western world - a rapidly increasing number of people aged 65 years and older - mean a considerable rise in the frequency of vascular diseases and consequent amputations. Greater political influence and higher levels of disposable income are features of this age group, adding to the demand for prosthetic devices. Greater mobility, independence and comfort for prosthetic users are also very much in demand, contributing to an environment of continuous improvement and innovation in the market.

ORTHOTICS

The orthotics industry offers solutions ranging from reconstructive implants and fracture fixation to soft tissue repair products, and reconstructive and rehabilitative braces and supports for the ankle, knee, spine and upper extremities. The products are used to remedy incidents of congenital deformity, osteoarthritis and damaged ligaments, often caused by illnesses connected with old age or lifestyle, as well as sports-related injuries.

REASONS FOR AMPUTATION IN WESTERN EUROPE AND NORTH AMERICA



Contrary to the prosthetic market, which consists mainly of prescription products, the orthotics market is divided into two segments: prescription and non-prescription products. Ossur's prosthetic product customers are service centers or workshops servicing patients needing artificial limbs or support in the form of braces or other orthotic products. At the same time, Ossur is going to extend its customer base to doctors, physiotherapists and certified fitters. In marketing its orthotic product range, Ossur intends to focus on the same customer base, i.e., O&P workshops. Ossur is now being able to offer them a larger selection of products.

The manufacturing sector of the prescription orthotic market is valued at USD 1-1.3 billion, and the long-term growth forecast for the prescription market in orthotics is 5-8%. Reasons for this market growth are aging of the population, new technologies, more market-orientated products, more end-user knowledge of improved healthcare, as well as more groups of healthcare people and sport injury.

COMPETITION

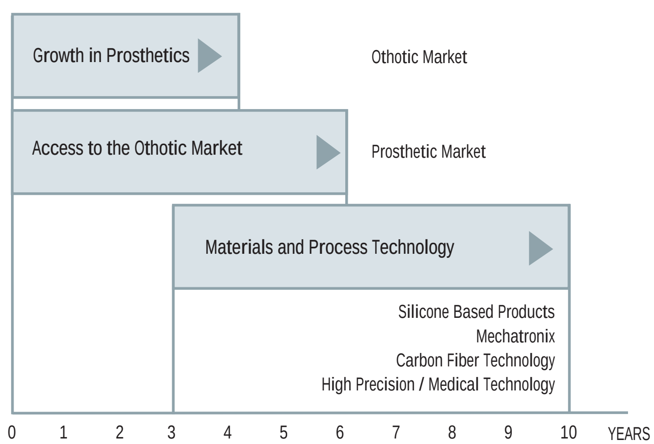
Competition in the prosthetic and orthotics market, as in other parts of the medical sector, is characterized by trends towards consolidation, continuous innovation and fast technical development.

Competition in the market focuses on aspects, such as range of service, education of customers, and product design and effectiveness.

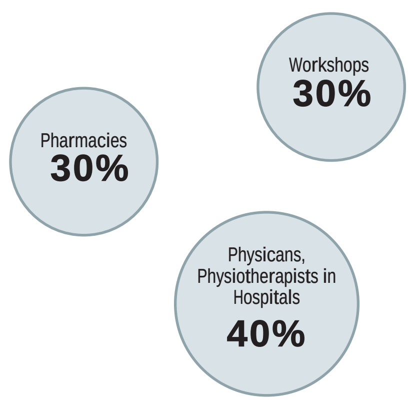
BUSINESS DEVELOPMENT AND GROWTH

Ossur's policy of paving the way for progress continues with exploring new business opportunities to realize its growth strategy. By the innovative application of its core technologies, knowledge of materials and sales and marketing expertise, Ossur has already started moving into new business areas. In 2003 Ossur has made a spectacular entry into the orthotics market, utilizing its expertise in carbon fiber technology. In 2004 Ossur plans to continue expanding its knowledge of silicone-based products, introducing a wound care product line, thus entering the medical market.

PLATFORM FOR GROWTH



DIVISION OF THE ORTHOTIC MARKET



MAIN COMPETITORS

PROSTHETICS

Otto Bock
Bauerfeind
Medi
Ohio Willow Wood
Fillauer

ORTHOTICS

Otto Bock
Bauerfeind
Medi
Bledsoe Brace Systems
BBI
Breg
Dj Ortho
Townsand
Becker Orthopedic

OSSUR'S INTELLECTUAL PROPERTY PORTFOLIO

RHEO KNEE FOR THE 21ST CENTURY

RHEO KNEE is the name of the second-generation prosthetic knee joint, developed in the cooperation of Ossur's engineering team with the Massachusetts Institute of Technology (MIT) in Boston.

It is a swing-and-stance-control knee system, providing appropriate resistance to flexion and extension through the use of a microprocessor, integrated sensors, and an innovative magnetorheologic fluid actuator.

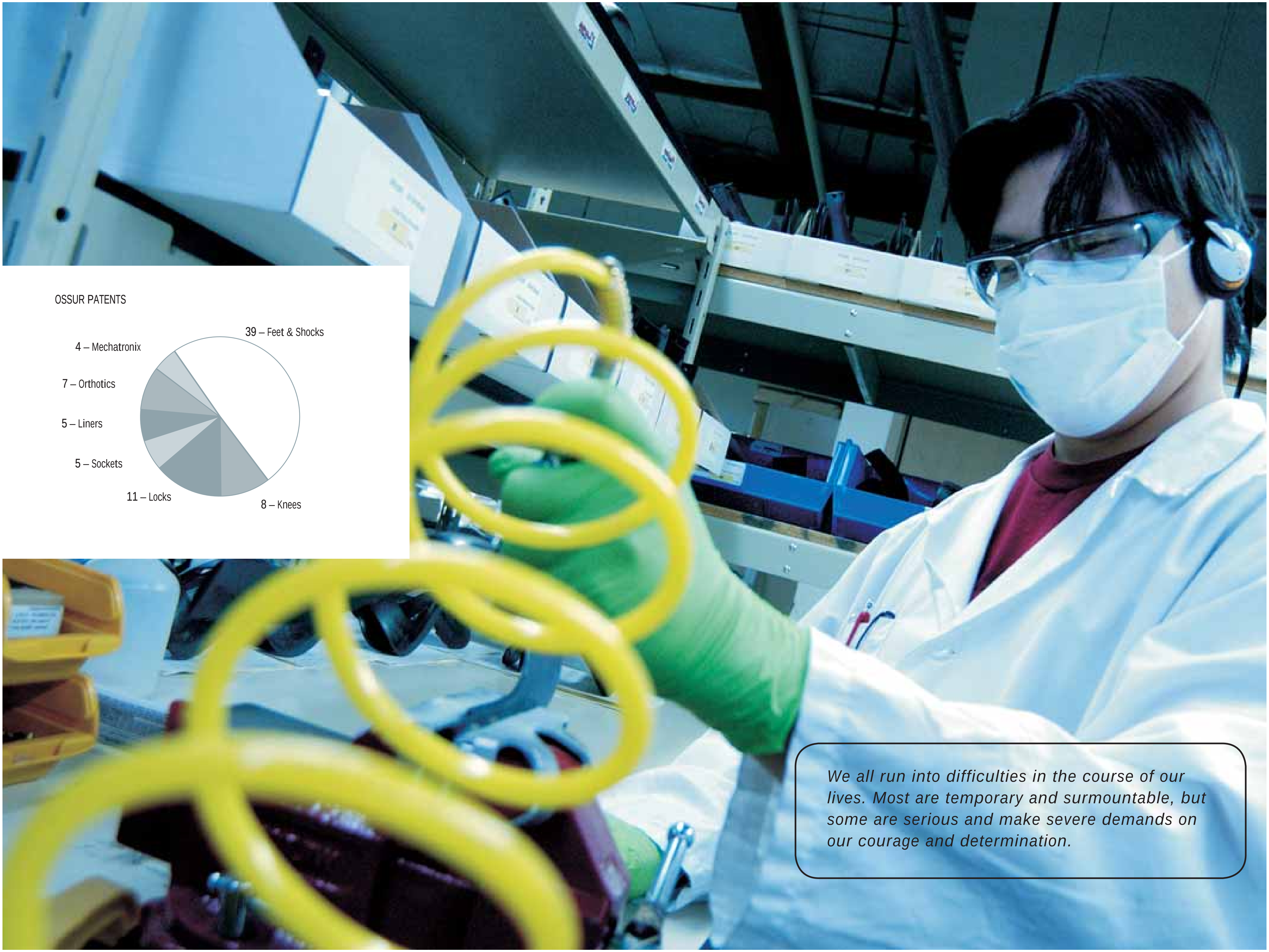
The combination of RHEO KNEE with Ossur's Flex-Foot prosthetic foot systems provides amputees with enhanced security, energy efficiency, comfort, and optimized gait dynamics.

RHEO KNEE will be launched in the first quarter of 2004.

Ossur has always seen R&D as essential to future development and is determined to maintain its technological leadership. The Company's average annual investment in R&D has been 8%.Along with protecting new product development by filing new patent applications, the Company is determined to defend its existing patent portfolio vigorously against imitations on the market, which the industry is more aware of each year.

A reliable measure of the results of Ossur's investment in R&D is the number of patents Ossur has in its portfolio. At the end of 2003 Ossur's products were protected by 79 granted US patents as well as many international patents. The average lifetime of an Ossur patent is 10.7 years. Work is constantly in progress to renew the patent portfolio, as new products are developed. The management of intellectual property is fully integrated into the Company's overall business strategy. Patent applications and filing strategies are developed in parallel with new products, ensuring greater effectiveness. 35 patent applications were filed in the US in 2003 and at the end of the year, 58 US patents were pending.

In March 2003, Ossur filed a patent infringement suit against Freedom Innovations Inc., whose officers are former employees and business partners of Ossur. The reason for the suit was products brought to market by Freedom Innovations that Ossur asserted were copies of three of the products from Ossur's Flex-Foot line, which are covered by various patents. In a court-ordered mediation on 8 December 2003 Ossur and Freedom Innovations agreed to settle all litigation. Both parties expressed satisfaction with the settlement, which involves product licensing.

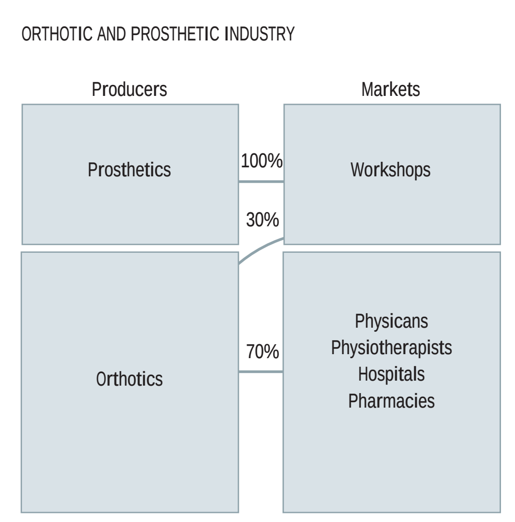


We all run into difficulties in the course of our lives. Most are temporary and surmountable, but some are serious and make severe demands on our courage and determination.

ACTIVITIES IN 2003

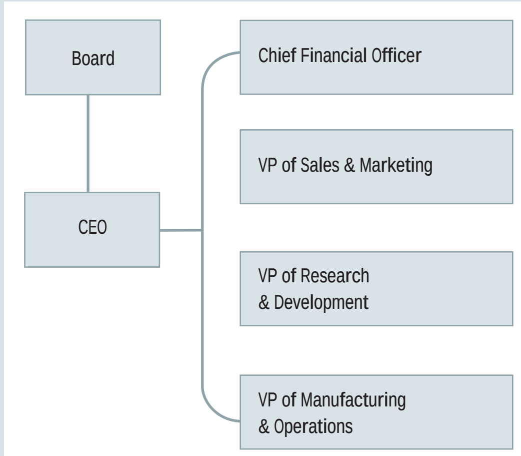
Ossur's total sales over the year came to USD 94,5 million, which represents a growth of 16%. The growth is primarily a result of new acquisitions. The principal features that characterised the year 2003 for the Company were the restructuring efforts which followed the acquisition of Generation II and the profound changes in emphasis in the North America market.

In the course of the year, Ossur acquired Linea Orthopedic A.B. and the Generation II Group, and entered into a partnership agreement with Victhom Human Bionics Inc., transforming itself in the process from a prosthetics company into a orthotics and prosthetics company and expanding into a market which is much larger than the prosthetics market, encompassing prosthetists, physicians, physiotherapists and medical products' retailers. Before these changes Ossur's customers were mostly prosthetists, and Ossur will continue to focus on this segment of the market, but following the acquisition of Generation II, the prosthetists will be joined by physicians and health institutions.



THE O & P INDUSTRY

In the second half of the year, extensive changes were made in the management structure and organizational chart of the company. There are now four Vice Presidents on the executive board, in addition to the Chief Executive Officer, as compared to the previous seven members. Previously, the directors of the company's sales offices held a seat on the executive board, but now they form a part of the Sales and Marketing Division. The Business Development Division is no longer a separate unit, as its tasks have been divided between the Research and Development Division, on the one hand, and the Sales and Marketing Division, on the other hand. The Technical Division was divided into two units, the Research and Development Division and the Manufacturing and Operations Division.



EXECUTIVE BOARD

In November, several changes were made to the Executive Board of Ossur North America designed to bring about a shift in focus in sales and marketing activities within the Ossur North America market area, the company's largest market. The President of Ossur North America and three other key members of the sales and marketing staff left the company and Eythor Bender, former Vice President of Sales and Marketing, took over as CEO of Ossur North America.

CORPORATE FINANCE

In the course of the year work progressed rapidly on bringing the financial reporting of the company in line with International Financial Reporting Standards (IFRS) and Ossur's third-quarter report was the first to comply with the standards. This is an important step for Ossur, not only to bring the company into compliance with the standard but also to coordinate the financial reporting processes within the company. Ossur is the first Icelandic company to report in compliance with the standard, which will be mandatory under European law for all companies listed in stock exchanges in the European Economic Area as of the beginning of 2005.

The Ossur intranet was launched late last year; it is intended to provide employees with access to the information they need concerning the activities and infrastructure of the company. The purpose of the intranet is also to give employees an opportunity to keep better track of other operating units of the consolidation and bring them closer together.

As in recent years, the company paid careful attention to investor relations and for the second year in a row the company won the Nordic Investor Relations Award for best Icelandic Company Investor Relations.

One of Ossur's most precious assets is the knowledge possessed by its employees. This knowledge is the foundation on which our success rests.

The courage and determination shown by many of those who require our products is no less than heroic. It is from these people that we seek our inspiration.

One of the highlights for Corporate Finance last year was successful financing of the Generation II acquisition. Clear Corporate long-term growth strategy made it possible to carefully prepare the investment, build up the financial strength of the consolidation, and then capitalize on the financial strength by negotiating for long term debt financing at favorable terms. The timing of the external financing was excellent resulting in favorable interest rates, pay-back terms and covenants.

MANUFACTURING AND OPERATIONS

In the course of the year Ossur focused increased attention on the manufacturing efficiency and effectiveness of its product lines. Systematic efforts are in progress to reduce the number of production units in order to cut costs. Efforts are also being made to increase flexibility and improve reaction times in the production process, with production controls now directly connected with the company's sales systems. This has enabled Ossur to maintain a high degree of service with an approximately 99% security of delivery of the company's broad range of products.

In early 2002, the manufacture of carbon fiber feet was transferred from the United States to Iceland. Moving this previously outsourced production to Iceland has reduced risk and improved still further the company's core knowledge and expertise in this area. It is clear that moving the carbon fiber production to Iceland resulted in increased production capacity, improved flexibility and response times and more efficient utilization of equipment. The increased in-house knowledge has resulted in the redesign of product lines and simplification of production processes and, in addition, production was begun of a new line of carbon fiber braces.

The in-house CNC machining operation in Iceland has continuously been expanded as it has shown to be the most efficient source for many machined parts. Supply from low cost countries is also increasing. To ensure adequate output the company has recently invested further in high output CNC machines. For further increasing flexibility and efficiency some post-processes such as annodizing and nickel plating have been integrated to the machining process.

Preparations are in progress for the manufacture of the Rheo knee, with product launch scheduled for early 2004. Experimental production of wound dressings has begun and the quality control system has been adapted to the strict requirements applicable to such products.

The manufacture of adapters and components at Ossur Nordic was transferred to Iceland at the beginning of the year, and the manufacture of Linea cosmetic arm components was relocated to Iceland at the end of the year. A new bar coding system, EAN 113, was introduced to facilitate traceability of the company's products.

ALBION

In 2002 the work of transferring the assembly of the Mauch knee to Albion was completed with the result that all manufacture and assembly of the Mauch knee now takes place in Albion. In 2003, work processes were coordinated and streamlined, which resulted in increased production capacity.

The year saw the preparation and implementation of work processes complying with the ISO 9001 quality standard, and Albion was granted ISO 9001 certification in 2003.

SALES AND MARKETING DIVISION

Substantial changes were made to the Sales and Marketing Division in the course of the year. In September the division was changed from Prosthetic Division into Sales and Marketing Division. A decision was made to move all marketing activities closer to the markets and control marketing from the sales offices. At the same time, the Business Development Division was discontinued and part of its tasks now pertains to the Sales and Marketing Division. The sales offices of the consolidation now report to the Sales and Marketing Division, which will serve to increase the cooperation between them.

OSSUR NORTH AMERICA, INC.

Sales of Ossur North America amounted to 52% of the total sales of the consolidation, which means that North America is Ossur's biggest market. In the course of 2003, market conditions in North America have changed considerably as a result of increased competition, which partly explains the reduction in sales. In response to the decrease in sales, changes were made to the executive board of Ossur North America in November in order to achieve a new focus in sales and marketing activities.

At the beginning of the year an agreement was signed between Ossur North America and the California State University in Dominguez Hills providing for the transfer of the University's CSUDH Prosthetic Education Program to Ossur North America Headquarters in California. The added capacity at Ossur will enable the University to offer a new type of baccalaureate degree, where undergraduate students will first complete 3 years of college in general education, and then go on to complete their final year in clinical training in prosthetics.

In early 2003, Ossur North America, Inc. introduced a new O&P sales network known as the Ossur Affiliated Facilities Program. Over the year, approximately 700 orthotic and prosthetic facilities registered in the Ossur Affiliated Facilities, making it the largest network of such facilities in the United States. The main aim of the Ossur Affiliated Facilities is to assist O&P facilities that are Ossur's customers in their marketing work, e.g. in targeting physicians and physiotherapists, as well as to maintain the level of education and training of prosthetists and acquaint them with the most recent technology available at any time. At the close of the year some changes were made to the Ossur Affiliated Facilities based on customers' wishes; the changes involved increased focus on education and training, and in keeping with the shift in emphasis the name was changed to Ossur Academy.

Ossur North America places great emphasis on providing the best possible service in its market area and outstanding delivery times for products. There are thirteen salesmen in the area, working with a team of service representatives and technical staff. Ossur North America also places great emphasis on teaching and training in the use of the company's products and deriving maximum benefits from their use.

GENERATION II

In October Ossur hf. acquired the Generation II Group, a leading company in the development and manufacture of knee braces in North America, at a price of 31 million US dollars. Generation II has specialized in the development and manufacture of braces for use in cases of ligament injury, osteoarthritis and postoperative therapy. Generation II's emphasis on research and development and the high quality of the company's products made it an excellent fit with Ossur.

In the last months of the year efforts were speeded up to coordinate the work of Generation II with the Ossur hf. consolidation in order to achieve maximum synergy. It was decided that the Generation II operating units in Vancouver and Seattle should report to Ossur North America Inc. in California. Marketing activities in North America will be managed from California, while all development work in Canada will be transferred to Seattle and Reykjavik.

OSSUR EUROPE, B.V.

Sales of Ossur Europe amounted to 26% of the total sales of Ossur hf. Work continued throughout the year on changing the organization of the Company's sales and focusing on direct sales to prosthetics shops. This change has given good results with sales in southern Europe increasing by 50% over the year.

Efforts have been stepped up to promote the activities of the Europe office and build up a positive image of quality and good service. Since 2000, Ossur Europe has focused its attention on relations with customers, and it has been a part of the Company's strategy to invite major customers to Iceland to get a closer acquaintance with the company culture and spirit.

Ossur Europe has invested a great deal of effort in adapting to the European reimbursement system, where a total solution is required in four price brackets in order to have any possibility of reaching all those who are assessed in the system. The year 2003 was the first year that Ossur achieved this objective. Ossur Europe has focused on building firm relationships with prosthetic experts and other groups involved in the rehabilitation of amputees. In order to achieve even better results in this area, Ossur Europe has set up a system known as the Effective Rehabilitation of Amputees (ERA) which is intended to ensure involvement at the earliest stages of rehabilitation. ERA takes after the SMART program, which reduces the time from amputation to complete rehabilitation. The SMART system is used by physicians, therapists and prosthetists.

OSSUR NORDIC AB.

Ossur Nordic sales over the year amounted to 15% of the total sales of the consolidation. In the course of the year, Ossur focused increased attention on the launching of innovations in Ossur Nordic's market area. They include Ossur CadCam solutions, a line of prosthetic hands from Linea, a new line of ankle braces and Generation II products.

The relocation of the Helsingborg office in Uppsala was completed, which means that all the company's activities are now controlled from a single location in Uppsala. A service poll conducted by Gallup confirmed that the coordination of the activities in Uppsala was successful, with results showing that the market is particularly satisfied with Ossur as a distributor, with its level of service and prompt deliveries. Efforts have been made to improve sales material for new products and adapt such material to the circumstances and requirements of different countries in the market area.

In the course of the year, Ossur obtained certification for its ISO 9001:2000 and ISO-EN 13485 standards.

DOMESTIC WORKSHOP

In September, the Ossur Icelandic operations were moved to new premises in the so-called "Energy Building" in eastern Reykjavik. The Energy Building is one of Iceland's largest private medical centers, which will provide additional opportunities for co-operation with orthopedists and physiotherapists.

INTERNATIONAL MARKETS

Ossur is determined to be an enlightened and discerning player in all the major market areas of the world. In recent years, a great deal of effort has been invested in exploring the markets in Australia and Asia and working with qualified partners in these regions. Early in the year, one of the members of the International Markets staff relocated permanently to Hong Kong, and another employee was subsequently hired in Singapore. Sales in this market area amount to 7% of the total sales of the consolidation. There is significant room for growth in these market areas, and by making use of local business acumen and investment, coupled with the quality of its products and strategy, Ossur has continued to achieve profitable results.

MAUCH, INC.

Mauch is a manufacturing company specializing in components for spinal implants. In the course of the year great emphasis has been placed on developing the company and increasing the number of its customers. In a short space of time the company has succeeded in building relationships with new customers, which can be attributed to its high standard of quality and its competitiveness.

EYTHOR BENDER
OSSUR NORTH AMERICA INC.

Eythor Bender, President, Ossur North America. Eythor has been with Ossur since 1995, for a time as Managing Director of Ossur Luxembourg, Europe, and most recently as Vice President of Sales and Marketing. Eythor has a Masters Degree in business economics from the University of Tübingen in Germany.

OLAFUR GYLFASON
OSSUR EUROPE B.V.

Olafur Gylfason, Managing Director of Ossur Europe B.V .Olafur has been with Ossur since 1997, first as international markets sales manager and later as Vice President of Sales and Marketing. Olafur has a B.Sc. in business sciences from the Bifrost School of Business and a Masters Degree in international trade from the University of Aalborg.

YVONNE MEYER
OSSUR NORDIC AB

Yvonne Meyer, Managing Director of Ossur Nordic AB. Yvonne has been working in the prosthetics industry since 1971. She was Managing Director of Pi Medical from 1998 to 2000, when Ossur acquired the company. Yvonne has a Masters Degree in languages, but she has also studied economics at the University of Uppsala.

WOUND CARE

One of the tasks of the Business Development Division was to work on utilizing the core materials knowledge of Ossur employees to develop new products for the medical market. The year saw the start of experimental production of wound dressings with special emphasis on dressings for ulcers and for use following amputation. There are already thirteen patent applications in the pipelines in connection with this project. Strict quality requirements apply in the manufacture of these products, and the Ossur quality control system has been adapted accordingly.

RESEARCH AND DEVELOPMENT DIVISION

Product development has always been at the heart of Ossur's operations. Since the foundation of the company its management has worked on the understanding that initiative in development work is the key to progress and advances in the market.

Numerous major development projects were in progress in 2003. About 20 new products and improvements were introduced during the course of the year. The most prominent of these were a new line of ankle braces, a comprehensive prosthetic solution for children and the new Seal-In silicone liner.

The new range of ankle braces was launched in early September. The competence of Ossur employees in carbon fiber technology and their extensive knowledge of the dynamics of the human ankle made progress on this project extremely rapid, and the design process of the entire new line took only 18 months.

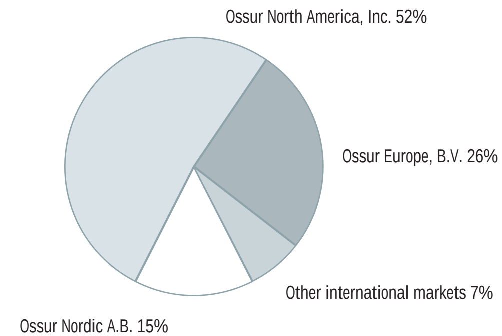
A new silicone liner, the Iceross® Seal-In Liner™, was launched in November. The liner represents a true breakthrough in the prosthetics market with its secure suspension by hypobaric sealing without the use of an external sleeve. The liner has passed a strict testing process and is now set to place Ossur ahead of competitors in the manufacture and development of a new liner technology which is independent of conventional locking systems.

A comprehensive children's line, the Ossur Junior Solution, entered the market in November. The product line consists of a carbon fiber foot, a knee, silicone liner and adapters.

This is the first time that a new product range is developed for children based on both efficiency and appearance. The technology featured in the products will increase children's mobility from the age of five and reduce physical strain.

In May, a partnership agreement was made with the Canadian company Victhom Human Bionics. The agreement involves the production and marketing of a new knee using an unprecedented new technology. The knee features an electrical motor which controls the movement of the knee based on data conveyed from the healthy leg, which coordinates the motion of

SALES BY MARKET



PRODUCTS

Ossur has long been well known as a leading designer and manufacturer of prosthetic products. By acquiring and integrating companies at the forefront of design and innovation, Ossur assembled some of the most distinguished brands in the prosthetic industry. With over 200 products in the prosthetic range, Ossur focuses on offering a total solution to suit needs of amputees, from the start of post-operative rehabilitation to total recovery, enabling them to improve their quality of life.

The Company's aim has always been to explore new business opportunities to realize its growth strategy. By the innovative application of its core technologies, expert design and biomechanical understanding, Ossur has moved forward in orthotics. The successful merger with Generation II, a leading North American developer and manufacturer of orthotic knee braces, combined with Ossur's own product development, enables the Company to increase its offerings to the orthotic and prosthetic industry.

It is our mission at Ossur to make people's lives easier and more satisfying. We are constantly looking for ways to develop new products that help people, and when that happens we feel that our work has been rewarded.

LP VARI-FLEX®

LP CETERUS®

ICEROSS® STABILO LOCKING ICEROSS® DERMO SEAL-IN

SMALL WONDER

MAUCH XG®

FEET

FLEX-FOOT® prosthetic feet have since 1984 been synonymous for innovation and quality. Combining the superior strength and flexible properties of carbon fiber, it has permitted amputees to walk with a gait indistinguishable from natural gait and athletic amputees to break world records and achieve athletic results comparable to those of able-bodied athletes. Two critical technology breakthroughs made Flex-Foot feet unique, and revolutionized the everyday aspirations of amputees. Energy storage and release was the first breakthrough, a function inherent in the patented carbon fiber design, known for its superior strength and flexibility. The second breakthrough was vertical shock absorption, which reduces impact on the residual limb, the sound limb and the rest of the body in general. The third platform that Ossur's R&D team is working on is multiaxial function, which enables rotation, eversion, inversion, plantarflexion, and dorsiflexion all in one foot. New and improved foot products combine multiple benefits of all these technological attributes.

Company's foot range consists of 9 major products.

LINERS

ICEROSS® silicone liners are state-of-the-art prosthetic interfaces offering exceptional suspension, comfort, durability and enhanced skin care. At the forefront of research since 1971, Ossur has pioneered silicone technology to great effect. Recommended through decades of medical use, silicone is bio-inert, durable and easy to maintain. Proprietary silicone blends are specially formulated to provide precisely the right levels of softness and strength to suit individual needs. Blended with additional supplements, DermoSil and DermoGel silicone blends actively improve skin-care and enhance comfort. The design of ICEROSS liners stabilizes soft tissues, minimizes stretching, improves circulation and adds comfort.

The latest innovation from the ICEROSS product line is ICEROSS Seal-In liner. It provides the ultimate in vacuum suspension systems and is unique in its capacity to function without other means of suspension, such as a sleeve.

The liner range of Ossur consists of 12 major products.

KNEES

Ossur's knee product range includes Total Knee's highly effective geometric polycentric design and Mauch hydraulic knee control systems offering a trusted range of high performance products to suit all activity levels. Total Knee is a unique lightweight aluminium knee, whose locking feature keeps the knee from collapsing when in full extension and its polycentric design recreates natural motion. Total Knee range of knees cater for various lifestyles. The "Total Knee Junior" is a particularly effective pediatric knee. Models 2000 and 2100 are designed for active working people, whereas TKO 1500 is a low impact knee which completely eliminates the need to hip hike or vault in order to initiate swing, and is suited for elderly and less active amputees.

The MAUCH knee is the strongest carbon fiber knee available, with the hydraulic function is designed for high-activity users and remains a favorite solution for amputee athletes.

The knee range of Ossur consists of 8 major products.

OSSUR JUNIOR ADAPTER

OSSUR AFO DYNAMIC

OSSUR AFO LIGHT

THE UNLOADER EXPRESS®

3DX™

LOCKING SYSTEMS AND ADAPTERS

The Ossur locking and adapter range consists of a variety of high quality locking systems, components and adapters designed to connect sockets, prosthetic knees and prosthetic feet. The Ossur adapter range consists of 57 separate items. This years addition to the range is the total range of pediatric locks and adapters, which is part of the total solution for children that the company has recently brought to market. The complete range is designed to enhance the performance of Ossur devices and to connect the socket with the prosthetic limb. Ossur Standard Adapters have the highest weight tolerances of all adapters currently avaliable on the market.

ANKLE FOOT ORTHOSES

Applied externally, an ankle foot orthosis (AFO) provides support, protection or replacement of lost function of the foot. AFOs are utilized to resolve various problems related to biomechanics, not just for foot problems, but sometimes for ankle and knee pain, pelvis, hip and spinal pain. AFOs are commonly used in the treatment of drop foot. Drop foot is the inability of an individual to lift their foot when muscle activity around the ankle is reduced. Severed nerves, stroke, cerebral palsy and multiple sclerosis are major causes of drop foot.

Enhanced by the application of energy storing properties of the carbon fiber, which is one of Ossur's core competences, the range of AFOs offer strength and stability, ensuring a confident more comfortable walk.

KNEE BRACES

Generation II Group designs and manufactures a diverse product line of customized and off-the shelf braces. Their specialty are braces for ligament injuries, osteoarthritic and post-operative conditions. Osteoarthritis is thought to be one of the fastest growing health threats to quality of life in the developed world and can lead to mobility problems. GII knee brace is the strongest in the market.

The GII product range has some of the best-known trademarks in orthotics industry. The GII Unloader® is the leader in scientifically proven brace treatment for uni-compartmental osteoarthritis. 3DX™ is the first dual-hinge ligament brace to move with the same three dimensional motion as the knee. This knee brace works in harmony with the surgery to promote natural 3-D tracking. The secret is in the patented Synergy™ Hinge System, allowing the brace to follow normal anatomic movement while stabilizing the knee.

INFRASTRUCTURE

QUALITY SYSTEM

Ossur hf. started work on its quality system in 1993, and the system has grown steadily since, as a result of both increased regulation and the increased scope of the company's activities.

The quality system is primarily a management tool designed to ensure consistent procedures and management of the company and to serve as a framework for internal control and quality control. The Quality Department is responsible for supervising the general operation of the system and maintaining its efficiency.

Ossur's products are classified as medical devices, which means that quality requirements are extremely strict. All Ossur products are CE-marked to meet the requirements of the European Economic Area, and in the United States they meet FDA standards. The quality requirements that Ossur is required to comply with to meet FDA standards are comparable to those requiring CE marking. Last year, Ossur began experimental production of wound care, which falls into a higher risk category, which in turn entails even stricter quality control requirements.

CE MARKING REQUIRES:

- A declaration from the manufacturer concerning product effectiveness
- A declaration of product safety
- A declaration of compliance with official standards and regulations

THE PURPOSE OF CE MARKING IS

- To ensure patient safety
- To ensure the free movement of manufactured goods within the European Union

The goal is to have all Ossur operations to function under the same quality system; most are already operating in compliance with ISO 9001:2000. Next year, work will continue on harmonizing and updating the quality system, based on ISO 9001:2000 and a new standard, ISO 13485, which is intended specifically for manufacturers of medical devices.

It is an indicator of the efficiency of the internal control of Ossur's quality system that the number of defective products has been 0.2% of the total production in past years.

SERVICE SURVEY

At the beginning of the year, Gallup organized an extensive service survey for Ossur. The purpose of the survey was to measure customer satisfaction with Ossur products and services and obtain a comparison with the products and services of major competitors.

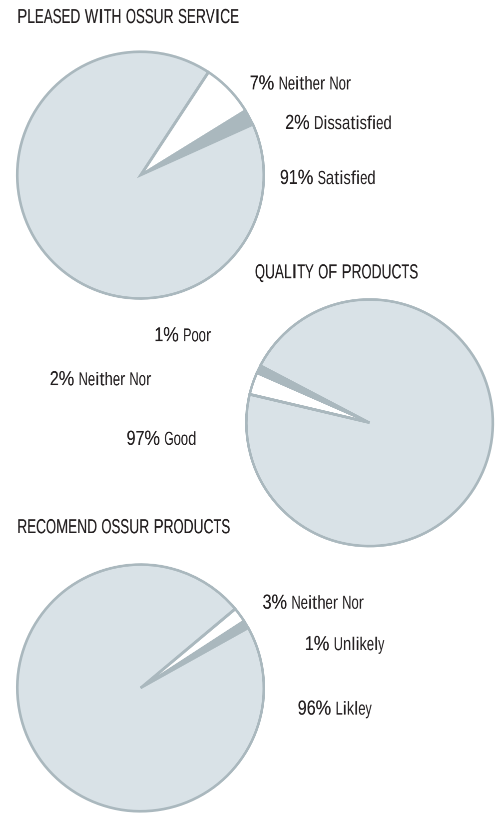
The survey extended to Ossur customers in the United States, Germany and Scandinavia. The results of the survey were extremely gratifying to the company, and on the whole Ossur enjoys a strong position among its customers. The results of the survey represent a major challenge for the Ossur staff to hold this course. This is the first survey of this kind that the company has undertaken, but there are plans to repeat such surveys regularly in the future.

COMMUNITY SUPPORT AND SPONSORSHIP

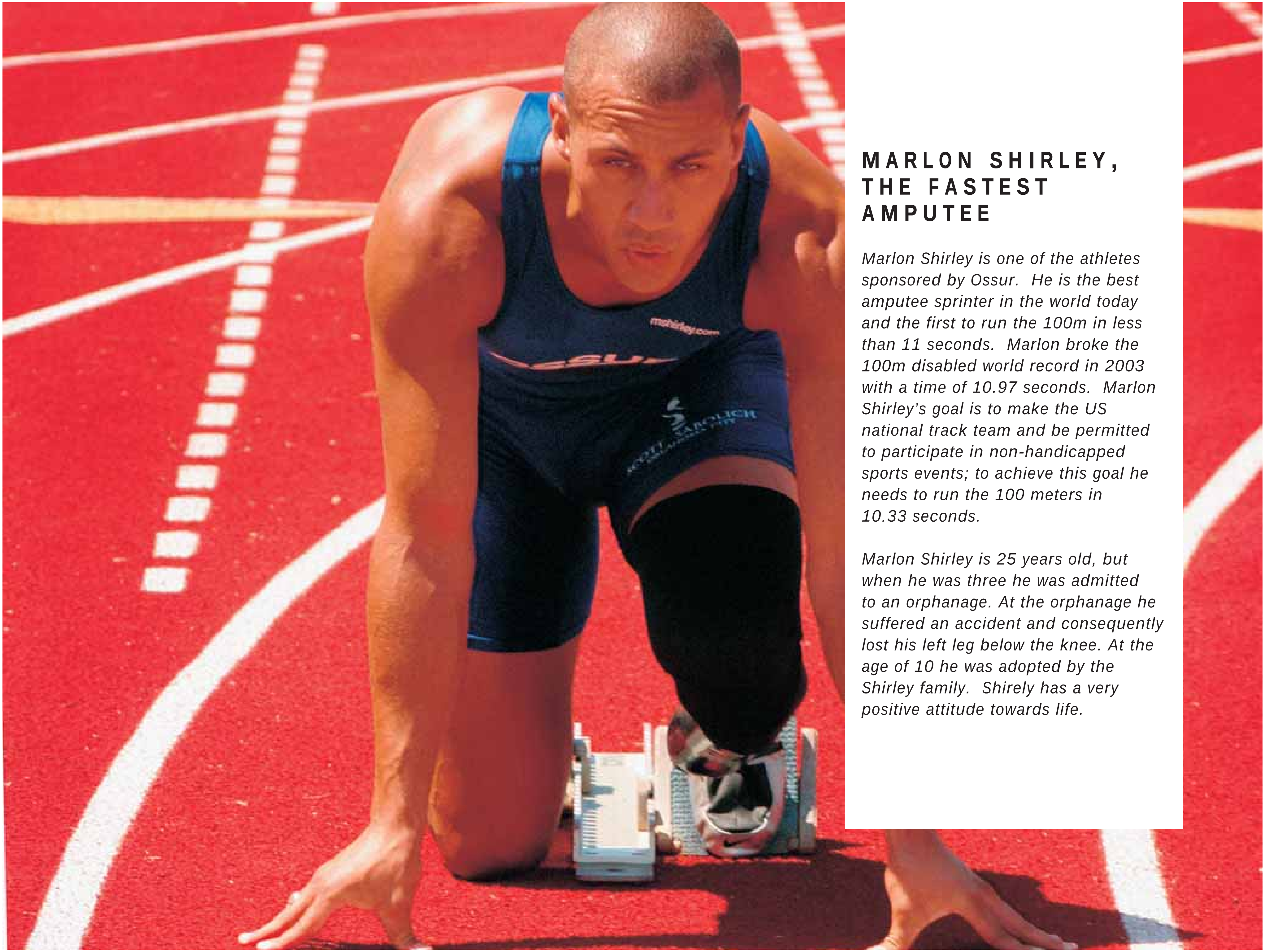
Ossur has adopted the policy of directing its community support activities primarily at the users of its products. For a number of years, Ossur has worked with end-users of its products on the development of new products, and the Company is now increasingly sponsoring handicapped athletes ranking among the best in the world.

Ossur is one of the principal sponsors of the Icelandic Sports Association for the Disabled (ÍF). The Company entered into an agreement with ÍF involving support for the organization through the Athens 2004 Paralympics. The organization is planning to send 6-8 competitors to the Olympics, including several holders of numerous individual World and Olympic records.

SERVICE SURVEY RESULTS



To lose a limb is a severe shock, physical and psychological. Our mission is to reduce the impact of this shock and enable people to live as normal and active a life as possible.



MARLON SHIRLEY, THE FASTEST AMPUTEE

Marlon Shirley is one of the athletes sponsored by Ossur. He is the best amputee sprinter in the world today and the first to run the 100m in less than 11 seconds. Marlon broke the 100m disabled world record in 2003 with a time of 10.97 seconds. Marlon Shirley's goal is to make the US national track team and be permitted to participate in non-handicapped sports events; to achieve this goal he needs to run the 100 meters in 10.33 seconds.

Marlon Shirley is 25 years old, but when he was three he was admitted to an orphanage. At the orphanage he suffered an accident and consequently lost his left leg below the knee. At the age of 10 he was adopted by the Shirley family. Shirely has a very positive attitude towards life.

Ossur North America sponsors a group of amputees in the US known as Team Ossur. The group includes individuals who have achieved outstanding results in their respective fields. The group includes athletes, a physiotherapist, a singer and special children, who all appear regularly in the media and at amputee conventions. The members of the Team promote the Company's products and demonstrate to other amputees what can be achieved with the right attitude.

Ossur North America also sponsors meetings of amputees hosted by Bob Gailey, a celebrated physiotherapist in the US and the foremost authority in his field. Known as Amputee Mobility Clinics, the meetings are designed to teach participants to achieve maximum efficiency with their prosthetic feet, to teach amputees to walk correctly and run, and to demonstrate to users the most recent advances in prosthetics technology. The meetings have been extremely well attended and highly praised by participating prosthetists, therapists and users.

Ossur Europe is firmly committed to sponsoring athletes competing at all European sports events for the handicapped. Athletes sponsored by Ossur Europe include both European and World record holders. Ossur Europe also makes a point of always sending its best technical experts to these events to assist the athletes. In addition, Ossur Europe supports two German organizations in their work with handicapped athletes. One of Ossur Europe's objectives with its participation and support of handicapped athletes is to help them achieve greater visibility and recognition for athletic events of this kind with the general public.

Like other Ossur companies, Ossur Nordic both sponsors and co-operates with organisations and groups who work with the people who use our products. Ossur Nordic has entered into co-operation agreements with four organisations which are involved in work with amputees in Scandinavia and is an active participant in events staged by these organisations.

THE ENVIRONMENT

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

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

The Board of Directors of Ossur hf. is composed of seven members elected at each Annual General Meeting of the Company. The Board of Directors works on the basis of the Articles of Association of the Company and its own formal rules of procedure. At a minimum, six board meetings are held each year, but in fact ten meetings were held in 2003.

The Board of Directors has appointed a committee to discuss the possibility of stock options for the Company management and submit recommendations. Icelandic law permits remuneration to members of the Board of Directors of companies in the form of stock options, the Board of Directors of Ossur has option agreements amounting to 900.000 shares.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting is held before the end of June each year. According to the Articles of Association of the Company, the meeting is called, like other shareholders meetings, with at least two weeks' notice. The conclusions of the Annual General Meeting are sent to the Iceland Stock Exchange right after the meeting and made available on the Company's website on the following business day.

AGENDA OF THE ANNUAL MEETING

THE FOLLOWING MATTERS SHALL BE DISPOSED OF AT THE ANNUAL MEETING:

1. Report of the board on the corporation's activities in the past operating year.
2. Presentation of the annual account for the past operating year for approval.
3. Determining the remuneration of the members of the board.
4. Deciding on the disposition of the corporation's profit or loss in the financial year.
5. Election of the members of the board.
6. Election of auditors.
7. Other matters lawfully presented or which the meeting has agreed to address.

HUMAN RESOURCES

WORKING ENVIRONMENT
Only a motivating environment can bring out the best in every employee. This means hiring ambitious people and providing them with the facilities and equipment required for success, and this also means enabling multidisciplinary cooperation and encouraging employees to increase their expertise and deepen their knowledge of how their company works.

Ossur aspires to be a leading company in terms of motivation, and in this respect it is vital for the management to understand the importance of a positive image for the company's human resources because it is this image that will attract competent individuals demanding an environment where they can work effectively to deliver maximum results.

EXPERTISE
The expertise and experience needs of Ossur employees have undergone transformation in the course of the year. The company is no longer exclusively dedicated to the prosthetics market; our product lines now include orthotic devices, and new projects involving the manufacture of dressings and cosmetic solutions are under way. Expertise in all these fields within the company must be ensured, and it is urgent for employees and management to keep abreast of all new developments and disseminate their individual expertise throughout the company.

Ossur's quality system requires the keeping of detailed records on all employee knowledge having an impact on product quality. Our goal in the coming year is to compile a databank of all employees' relevant knowledge and work experience.

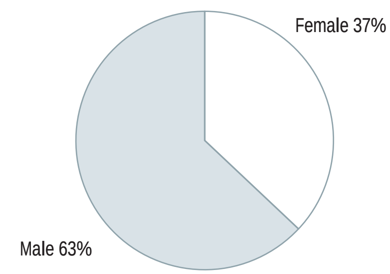
CURRENT WORKFORCE
The size of our workforce has increased by approximately 30% over the past two years. In the course of the year, Ossur employed an average of 495 employees, but employees now number 600. This represents an increase of 33%, compared with last year.

INTRANET
Ossur launched its intranet in October, with the aim of increasing the flow of information among employees. Accessible only to Ossur employees, the intranet serves as a unifying symbol in that it preserves information in one place on all the company's employees and operating units and displays useful news and announcements from each unit.

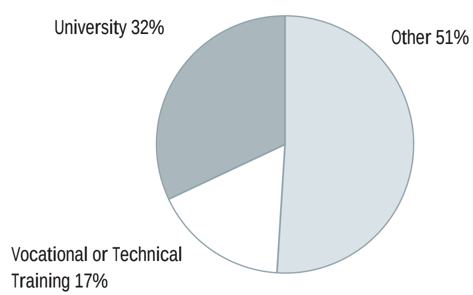
COMPANY CULTURE
Ossur maintains a strong tradition of combining personal initiative, ambition, and energy with a communal spirit of cooperation. It is important to maintain this tradition by supporting individuals subscribing to these values and by attracting individuals displaying these characteristics.

This tradition is vital to a rapidly growing, leading-edge company, and it is therefore extremely important to foster all conduct contributing to such a working environment. The rapid development of the company and the great variety of its external environment require employees to be adaptable and flexible. It is also important for our employees to understand that even though we seek to preserve a certain company culture, conditions and customs differ from location to location, and respect for different cultures is an important part of our evolution.

GENDER RATIO



EDUCATION / QUALIFICATION



REVENUE PER EMPLOYEE

We have always emphasized excellent quality and excellent services. This has not been lost on our satisfied customers, who know that we are working in their interest.

OSSUR'S YEAR ON THE STOCK EXCHANGE

OSSUR'S YEAR ON THE STOCK EXCHANGE

Ossur's shares are listed on the Iceland Stock Exchange (ICEX) and are included in the selected share index ICEX 15. The price of the shares fell 19.3% from ISK 54.0 at year-end 2002 to ISK 43.6 at year-end 2003. During the same period the leading ICEX 15 index increased with 56%.

In 2003, Ossur shares fluctuated considerably - due to a difficult market situation, especially in the US. The highest price for Ossur shares was in September, ending at ISK 53.5. The lowest price during the year was ISK 43 in December.

TRADING OF SHARES

In 2003 a total of ISK 170,510,713 Ossur shares were traded on the Iceland Stock Exchange. In terms of market value, trading in Ossur shares in 2003 amounted to ISK 8,254,609,200. The average spread (difference between bid and ask offers) of Ossur shares was 0.9% in 2003.

SHARES AND SHAREHOLDERS

The market value of the Company was USD 201 Million at year-end. The denomination of each share is ISK 1 (one) at nominal par. The number of shares is 328,441,000. The Company has only one class of shares, and all shares rank equally. The shares are freely transferable, negotiable instruments and can be registered by name and entered in the register of shareholders. Ossur is the twelfth largest Company listed on the Iceland Stock Exchange. At the end of 2003, there were 4429 registered shareholders in Ossur hf.

The group of shareholders remained unchanged overall during 2003. The largest shareholder in Ossur hf. is Mallard Holding, owned by Ossur's founder, Ossur Kristinsson, who owns 24.2% in the Company. In 2002 the Swedish investment company Industrivärden acquired 52 million shares, representing 15.83% of the company. This position remained unchanged at the year-end of 2003. Other larger positions remain primarily owned by Icelandic institutional and private investors.

At the end of 2003, members of Ossur's Board of Directors and Corporate Management held a total of 29% of the company.

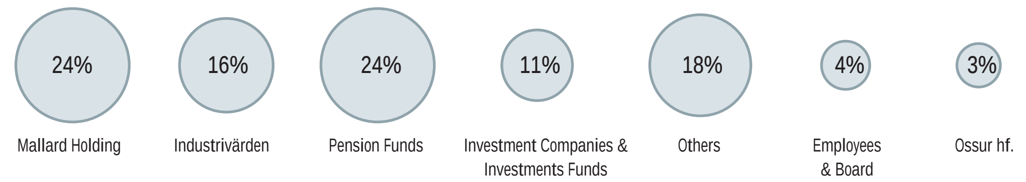
TREASURY SHARES

The previous year Ossur exercised its rights to purchase shares in the Company, and is at year-end 2003 holding 10.3 million shares to hedge its obligations under the stock option schemes for current managers and former owners.

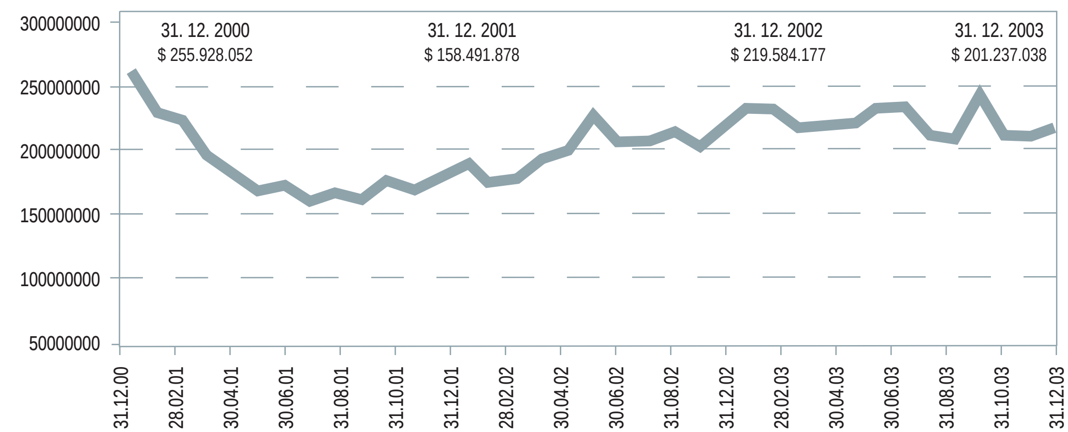
DIVIDEND

The Board of Directors will propose to the annual general meeting that no dividend will be paid to the shareholders. It is proposed that profit wil be re-invested in the growth of the Company for as long as return on investment in the prosthetics and orthotic sector exceeds returns in other sectors with the same level of risk. In the event that an annual general meeting resolves to pay dividends, dividends will be paid to registered shareholders pursuant to the register of shareholders on the date of the AGM.

DIVISION OF SHARES



TRENDS IN MARKET VALUE



INVESTOR RELATIONS

Ossur's investor relations department is responsible for maintaining and developing contact with Icelandic and international investors and analysts.The aim for Ossur's investor relations activities is to ensure that the Ossur stock price reflects the intrinsic value of the Company.

A key element in the Company's investor relations policy is to ensure that all shareholders have uniform access to all published information. Through a high and consistent level of value-based communication, the Company aims to ensure that all relevant information is incorporated in the stock price. By keeping an open and active dialog with all stakeholders (investors, analysts, the general public, customers, suppliers, employees and other parties) the Company keeps all interested parties up-to-date on the Company's activities, strategy and goals. Ossur's investor relations communications follow the ethical regulations of the Iceland Stock Exchange.

In 2003 - for the second consecutive year - Investor Relations Magazine awarded Ossur hf. the Nordic IR-Award for the highest standard of investor relations in the category of large and medium-sized companies in Iceland. Still, Ossur knows there is room for improvement, and in 2003 the Company conducted an independent perception study on its investor relations activities. This will enable the Company to correct and implement new features in the field of value-enhancing communication for the benefit of its stakeholders.

For information about Ossur shares, please contact the IR Department
tel. +00354 515 1339 or +00354 515 1388; finance@ossur.com

SHAREHOLDER INFORMATION ON THE INTERNET

Additional comprehensive information is available to all interested parties in Icelandic at www.ossur.is and in English at www.ossur.com. On Ossur's website, interested parties can read and subscribe to notices to the Iceland Stock Exchange, keep track of the performance of Ossur shares and read and download financial reports. Moreover, the website offers all stakeholders real-time access to quarterly teleconferences, 10 days after the conferences, at which the Ossur management comments on business developments. Ossur's defined goal is to make the website the place where all relevant information about the company is made available to everyone - at the same time.

www.ossur.com - www.ossur.is - www.ossur.com/investors

FINANCIAL CALENDAR 2004

13 February	Annual General Meeting
29 April	1st quarter statement
27 July	2nd quarter statement
26 October	3rd quarter statement
08 February	4th quarter statement
25 February	Annual General Meeting 2005

RELEASES FROM OSSUR HF. IN 2003

22 December	Ossur hf. adjusts financial expectations for Q4 2003
09 December	Ossur and Freedom innovations agree to settlement
11 November	Changes at Ossur North America, Inc.
23 October	Ossur hf. Third Quarter Report for 2003
09 October	The acquisition deal on Generation II Group has been closed
26 September	Ossur to acquire Generation II Group
24 July	Ossur hf. Second Quarter Report for 2003
02 July	Ossur acquires Linea Orthopedics in Sweden
14 May	Ossur signs agreement with Victhom Human Bionics
29 April	Ossur hf. First Quarter Report for 2003
21 February	Results of Ossur Annual General Meeting
12 February	Ossur hf. Annual Financial Statement for 2002

LARGEST OSSUR HF. SHAREHOLDERS AT YEAR-END

Name	Nominal Price of Stock	%
01. Mallard Holding S.A.	79.531.846,00	24,21
02. Industrivärden AB	52.000.000,00	15,83
03. Pension Fund, Bankastræti 7	39.309.253,00	11,97
04. Arion hf. - Custody Accounts	15.527.102,00	4,73
05. Ossur hf	10.296.111,00	3,13
06. The Seamen's Pension Fund	9.531.044,00	2,9
07. Framsyn Pension Fund	8.073.924,00	2,46
08. Vik Investment Holding S.a.r.I.	7.872.423,00	2,4
09. Pension Fund, Nordurlands	5.600.052,00	1,71
10. Sjova-Almennar hf	5.089.424,00	1,55
Total Holdings of 10 Largest	232.831.179,00	70,89
Other Shareholders	95.609.821,00	29,11
Total Shares	328.441.000,00	100

ANALYST COVERAGE OF OSSUR IN 2003

OSSUR SHARES ARE FOLLOWED BY:

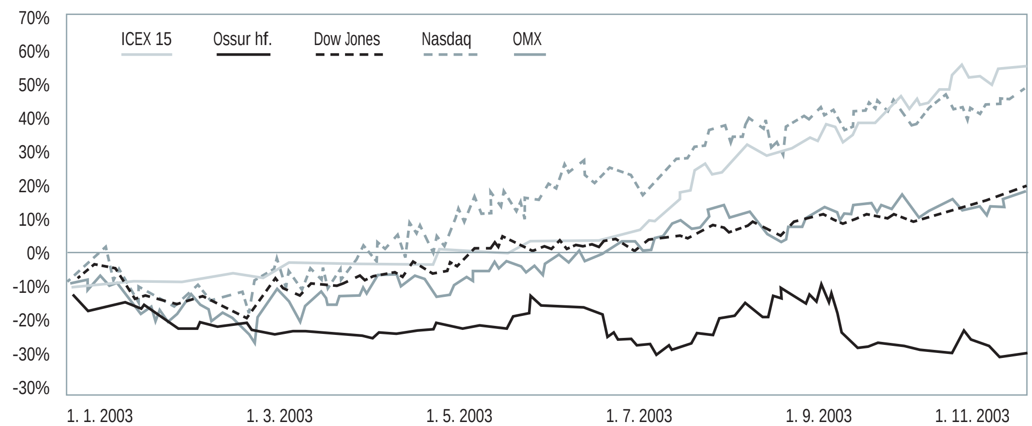
Islandsbanki hf.
Atli Gudmundsson / atli.gudmundsson@isb.is +354 664 4632

KB banki hf.
Thorhildur Einarsdottir / thorhildur@kbbanki.is +354 444 6956

Landsbanki hf.
Bjarki Logason / bjarki.logason@landsbanki.is +354 560 3137

Cazenove & Co, London
Mike Yates / mike.yates@cazenove.com +44 207 155 8214

OSSUR STOCK PRICE TRENDS IN COMPARISON WITH STOCK MARKET INDICES IN 2003



PERFORMANCE OVERVIEW 2003

SALES

Net sales over the year amounted to USD 94.5 million, as compared to USD 81.3 million in the preceding year, which represents an increase of slightly less than USD 13.2 million, or just over 16%. Approximately USD 5.9 million of this figure, about 7%, resulted from new acquisitions, mainly Generation II, which Ossur acquired in October and whose sales are included in the fourth quarter sales of the consolidated company. The impact of exchange rate trends was felt during the year, as the fall in the price of the US dollar against the euro and other European currencies was translated into increases in sales, as measured in dollars. The increase in sales, as measured in local currencies, came to about 8%, or 2% net of new acquisitions.

The compounded annual growth in sales from 1999 to 2003 has been just short of 51%. The weight of the North American market as a proportion of the total has fallen to approximately 52% in 2003 from approximately 57% in 2002. The weight of the European market, however, increased over the past year from approximately 35% of total sales to 41%. The weight of other markets remained stable between years, at 7%. The acquisition of Generation II, whose products had an impact on only 4th quarter sales, will increase the weight of the American market in the long term; on the other hand, growth was strong in Europe at the same time as sales fell in North America, and in addition the fall in the price of the US dollar against the euro had a substantial impact.

There were some discernible changes in sales by product category between years. Prosthetics account for approximately 84% of sales, orthotic products for 13% and other products for 3%. In 2002 the respective ratios were 90% in prosthetics, 5% in orthotics and 5% in other products. The weight of the Icelandic market was less than 2% of sales. Expansion into the orthotics market began in September with the launch of a new line of Ossur ankle braces and the expansion gained substantial momentum in October with the acquisition of Generation II.

EXPENSES

Operating expenses before interest and taxes amounted to ISK 88.6 million in 2003, or approximately 95% of total revenues, as compared to USD 70.8, or 87% of revenues, in 2002. The operating ratios for the last three years are as follows:

Any assessment of operations in 2003 must take account of the fact that operating expenses include major extraordinary expenses resulting from litigation, management changes, major restructuring and other items amounting to a total of USD 4.3 million, which corresponds to over 4% of sales.

	2003	2002	2001
Cost of Goods Sold	43%	41%	37%
Gross Profit Margin	57%	59%	63%
Sales & Marketing Expenses	22%	21%	18%
R&D Expenses	10%	9%	7%
General & Administrative Expenses	19%	16%	22%
Operation Margin	6%	14%	16%
Pretax Margin	6%	15%	15%
Tax Rate	18%	15%	17%
Net Margin	5%	12%	13%

Legal action relating to breach of contract and patent infringements cost the Company a total of USD 2.2 million in 2003, while no such expenses were encountered in 2002. Restructuring costs, particularly in North America, amounted to over USD 1.5 million. In addition, further extraordinary expenses resulted from the relocation of the prosthetics workshop in Iceland and for exploratory work on acquisitions which did not materialize.

With the acquisition of Generation II, which has locations in Seattle, Vancouver, and Brussels, three new operations were added to the Ossur consolidation. During the course of the year the Belgium operations were merged with Ossur's offices in Eindhoven in the Netherlands and work was begun immediately on merging other Generation II activities with existing Ossur operations. There were nine Ossur operating stations at year-end, including the Belgium operation. The operating ratios of Generation II are somewhat different from the normal Ossur operations, with similar gross profit margins, but higher sales and marketing expenses and lower research and development expenses.

The acquisition of Generation II brought in a new line of braces, but no changes were made in existing product lines during the year. The carbon fiber production line in Iceland, which was taken into use at mid-year 2002, was in operation over the entire year. Production of a new line of carbon fiber ankle braces was begun in the fall of 2003.

No particular changes were made in sales arrangements in the principal market areas of the company during the year, apart from the additions resulting from the acquisition of Generation II, which uses both its own sales agents and sells through a network of distributors. The ratio of sales and marketing expenses to sales was similar between years, i.e. 22%, as compared to 21% in 2002.

As usual, total R&D costs were expensed, except the R&D cost within Generation II which had not been expensed prior to the acquisition. Although the stated objective of the Company is to maintain the ratio of R&D costs to sales at an annual level of 6-8%, the ratio for this year was approximately 10%. The reason for this is that numerous projects were in progress during the year involving prosthetic products, orthotic products and advanced wound care. With the conclusion of several major projects, the transfer of the Research and Development unit to Iceland and changed ratios in the operation of Generation II, the ratio of R&D costs to sales is projected to fall in the coming year.

General and administrative expenses as a ratio of sales increased from 16% in 2002 to 19% of sales in 2003. The entire increase is a result of extraordinary expenses arising from legal action, major restructuring and changes in management.

The fall in the price of the US dollar against European currencies has increased production costs and operating expenses over the past two years, particularly in Iceland.

FINANCIAL ITEMS

Borrowing of long-term loans amounting to USD 35 million in 2003. Ten million dollars were used to refinance long-term loans. Of the total borrowing, USD 20 million carry fixed interest, while USD 15 million are in the form of a floating-interest revolving credit. The amount of the loan has a single due date in 2008. The interest terms of the fixed-interest loan are extremely favorable, at 3.99% for the USD section and 4.38% for the Euro section.

Interest income amounted to USD 448 thousand, while financial expenses amounted to USD 1,342 thousand. Taking exchange-rate gains into account, financial items were negative by USD 407 thousand, as compared to a positive outcome of slightly less than USD 182 thousand in the preceding year. At year-end, 73% of consolidated long-term liabilities were in US dollars, while 27% were in euros. Approximately 58% of the revenues of the year were in US dollars and Canadian dollars, and about the same ratio of operating expenses. Revenues in euros were 26% and expenses were 10%. Revenues in European currencies other than euros corresponded to 16% and expenses to 32%. The weight of the Icelandic krona in this figure was 1.8% of revenues and 22% of expenses, up from 18% in 2001. The main reason for this increase is the transfer of production to Iceland coupled with the fall in the price of the US dollar.

INCOME TAX RATIOS

Iceland	18%
USA:	
California	40%
Washington	38%
Michigan	36%
Ohio	40%
Canada, British Columbia	38%
Sweden	28%
Belgium	34%
The Netherlands	35%

INCOME TAX

Consolidated income tax amounted to just over USD 1 million, which corresponds to 18% of total pre-tax income. The corresponding ratio in 2002 was 15%, and 17% in 2001. The consolidated company as a whole is not jointly taxed, although the U.S. sub-consolidation is. In other regions, individual companies are independent taxable entities. Business transactions within the Ossur consolidation are subject to standard discount terms. In the U.S. the consolidated company is entitled to substantial tax concessions in connection with its acquisitions in 2000. The income tax rate of the parent company in Iceland is 18%, which is among the most favorable tax terms available in the world. The table below shows the income tax ratios in the different business regions of the Consolidation in 2003, excluding deductions and concessions.

PROFIT FOR THE YEAR

The operating profit for the year was just over USD 6.1 million, down from USD 11.5 million for the preceding year. The ratio of operating profit to sales was 6%, as compared to 14% for 2002. Earnings before interest, taxes and depreciation (EBITDA) was USD 9.4 million, or 10%, as compared to USD 14.3 million, or 18%, in the preceding year. Net profit for the year was USD 4.6 million, as compared to 10.1 million in 2002, down by USD 5.4 million. Extraordinary expenses resulting from litigation, management changes, restructuring and other items cut into the profit for the year by USD 4.3 million, which corresponds to over 4% of sales.

EARNINGS PER SHARE

Earnings per share in 2003 amounted to 1.45 US cents, as compared to 3.12 US cents in 2002. Diluted earnings per share came to 1.44 US cents, as compared to 3.10 US cents in the preceding year.

ASSETS

Total assets at year-end amounted to ISK 102 million, as compared to ISK 71 million at year-end 2002, which corresponds to an increase of 43%. Fixed assets at year-end amounted to slightly less than USD 66 million, increasing by 100% from the preceding year. The increase is almost entirely due to the acquisition of Generation II at a capitalized acquisition price of USD 30 million, of which capitalized goodwill accounted for USD 23 million, and capitalized other intangible assets came to just short of USD 4.5 million, consisting mostly of patents and business contracts. The goodwill is not amortized on a regular basis, but assessed annually and amortized if the assessment indicates a substantial reduction in value. Other intangible assets will be amortized on a regular basis, however, which will increase amortization somewhat from previous levels.

Deferred tax asset at year-end were just short of USD 21 million. The largest proportion of these allowances, slightly less than USD 15 million, is a result of the acquisition of U.S. companies in 2000.

Investment in fixed assets over the year was slightly less than USD 5 million, as compared to USD 4 million in 2002. In addition, fixed assets in the amount of USD 2.5 million were taken over with the acquisition of Generation II.

Total inventories of raw materials and finished products remained unchanged in spite of the increases in inventory resulting from acquisitions, which amounted to USD 1.6 million; this means that inventory from before acquisitions were in fact reduced by 12% between years. Accounts receivable increased by 21% between years. Net of the increases resulting from acquisitions, receivables from previous operations were reduced by 6%. Cash and marketable securities were reduced between years by slightly less than USD 8 million. The reason is primarily that from the beginning of 2001 until October 2003 the financial position of the company was deliberately strengthened in order to meet the foreseeable costs of new acquisition, in line with the company's long-term strategy.

LIABILITIES

Total liabilities at year-end amounted to USD 58 million, as compared to USD 31 million for the preceding year. Long-term liabilities amounted to just over USD 38 million, as compared to slightly less than USD 15 million at year-end 2002. New long-term loans were taken during the year amounting to USD 35 million. Ten million dollars were used to refinance older long-term loans. At year-end, 73% of the Company's consolidated long-term liabilities were in US dollars, while 27% were in euros. Short-term liabilities amounted to slightly less than USD 20 million at year-end, up by 17% from the preceding year. Working capital from operating activities amounted to USD 17 million at year-end, down by slightly less than USD 5 million between years. The current ratio at year-end was 1.8. Cash from operations in 2003 amounted to approximately 23% of total liabilities, as compared to 36% in 2002.

RESULTS OF THE YEAR BY QUARTER

Profit and Loss Account 2003 USD '000	Q1	Q2	Q3	Q4	TOTAL
Net sales	21.692	22.726	22.398	27.651	94.467
Cost of goods sold	-9.129	-9.019	-9.676	-12.408	-40.232
Gross profit	12.563	13.707	12.722	15.243	54.235
Other income	82	22	40	122	266
Sales and marketing expenses	-4.872	-5.013	-4.080	-7.273	-21.238
Research and development expenses	-2.257	-2.595	-1.990	-2.750	-9.592
General & administrative expenses	-3.546	-3.572	-3.750	-6.691	-17.559
Profit from operations	1.970	2.549	2.942	-1.349	6.112
Interest income / (expenses)	-126	-247	-114	80	-407
Profit before tax	1.844	2.302	2.828	-1.269	5.705
Income tax	-440	-394	-562	352	-1.044
Net profit	1.404	1.908	2.266	-917	4.661
EBITDA	2.642	3.206	3.658	-78	9.428

All Amouts in Thousands of USD

EQUITY

The issued stock of Ossur hf. remained unchanged throughout 2003, at 328,441,000 shares. The Company bought 5,163,400 of treasury shares during the year. The shares were bought at market value at an average price of just over ISK 44.88 per share. To meet stock option obligations, 1,035,714 shares were sold at an average price of ISK 39.99 per share. At year-end, the number of outstanding shares, excluding treasury shares, was 318,144,889. The Company has entered into binding stock option contracts with managers and employees involving 6,655,000 shares. The Company has also undertaken to use an additional 549,608 shares to meet obligations resulting from the acquisition of Swedish subsidiaries in 2000. This liability was recorded in the Balance Sheet at the time of the acquisition. The company possesses an unexercised authorization at year end to issue 10 million shares for the purpose of meeting stock option obligations. The authorization is effective until 24 March 2005. The equity ratio at year-end was 43%, down from 56% at year-end 2002. The market value of the Company at year-end was just over USD 201 million, down from USD 220 million at the beginning of the year.

CASH FLOW

Working capital provided by operating activities amounted to USD 8.8 million, down by 40% between years. Cash from operations remained similar between years, amounting to just over USD 10 million. A net amount of USD 33 million was used for investing activities, and a net amount of USD 16 million was used for payment of debts and purchases of treasury stock. Cash decreased by USD 6.7 million over the year. The current ratio was 1.8, down from 2.3. The cash ratio was 1.2, down from 1.5.

OSSUR HF.
CONSOLIDATED
FINANCIAL STATEMENTS 2003

FINANCIAL RATIOS

CONSOLIDATED STATEMENT			2003	2002	2001	2000	1999
GROWTH	Net sales	USD '000	94,467	81,284	68,380	45,682	17,933
	EBITDA	USD '000	9,428	14,310	12,973	8,904	3,361
	Profit from operations	USD '000	6,112	11,501	10,889	7,560	2,891
	Employees	Number	480	431	392	327	122
	Net income (1)	USD '000	4,661	10,056	8,632	5,188	1,925
	Total assets	USD '000	102,126	71,425	58,201	56,851	24,307
OPERATIONAL PERFORMANCE	Cash provided by operating activities	USD '000	10,383	10,503	10,359	5,797	3,243
	- as ratio to total debt	%	23	36	36	30	67
	- as ratio to net profit		2.2	1.0	1.2	1.1	1.7
	Working capital from operating activities	USD '000	8,774	14,661	10,771	8,557	2,598
	- as ratio to long-term debt and stockh. equity	%	13	30	27	25	19
	- as ratio to investm., current maturities, divid.		0.2	1.7	1.2	0.1	2,7
LIQUIDITY AND SOLVENCY	Quick ratio		1.2	1.5	1.2	1.1	1.5
	Current ratio		1.8	2.3	1.9	1.5	2.2
	Equity ratio	%	43	56	52	45	79
ASSET UTILIZATION AND EFFICIENCY	Net sales pr. employee	USD '000	197	189	174	140	147
	Total asset turnover		1.1	1.3	1.3	1.1	1.1
	Grace period granted	Days	47	44	44	50	40
PROFITABILITY	Return on capital (1)	%	9	20	19	8	23
	Return on common equity (1)	%	11	29	32	9	45
	Operating profit as ratio to net sales	%	6	14	16	16	16
	Net income before taxes as ratio to net sales	%	6	15	15	13	17
	Net income for the period as ratio to net sales (1)	%	5	12	12	11	11
MARKET	Value of stock	USD '000	201,237	219,584	158,492	255,928	116,850
	Price/earnings ratio, (P/E) (1)		43.2	21.8	19.4	53.0	60.8
	Price/book ratio		4.6	5.5	5.2	10.1	6.1
	Number of shares	Millions	328	328	328	328	212
	Earnings per Share, (EPS) (1)	US Cent	1.45	3.12	2.64	1.48	0.91
	Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	1.44	3.10	2.63		

Notes
1. Financial ratios for the year 2000 have been calculated using net income before extraordinary expenses.
2. Financial ratios based on financial statements prepared in Icelandic currency prior to 2002 have been translated to US dollars. Income statement items have been translated at the average exchange rate for each period and balance sheet items have been translated at the exchange rate at the end of each period.

All amounts in thousands of USD

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 2003.

Ossur hf. designs, manufactures and sells prosthetic and orthotic solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada and Europe. The Company sells its products all over the world, but the principal market areas are the United States, Canada, Western Europe and Japan. In the year 2003, Ossur Consolidation consisted of Ossur hf. in Iceland, the Ossur Holdings, Inc., Consolidation in the United States, Generation II Orthotics, Inc. in Canada, Generation II USA, Inc. in the US, the Ossur Holding, A.B. Consolidation in Sweden, and Ossur Europe B.V. From January 1st 2002 the company has reported in USD, which is the functional currency of the Company.

The total sales of the Ossur Consolidation amounted to USD 94.5 million, compared to USD 81.3 million in the preceding year. This represents an increase in sales of approximately 16%. Net profit amounted to USD 4.7 million compared to USD 10.1 million in 2002. Earnings per Share (EPS) amounted to US cents 1.45 compared to US cents 3.12 in 2002. Earnings before interests, taxes, depreciation and amortization (EBITDA) amounted to USD 9.4 million.

The total assets of the Ossur Consolidation amounted to USD 102.1 million at year-end, liabilities were 58.1 million, and equity was 44 million. The equity ratio at year-end was 43%, compared to 56% the preceding year.

In the course of the year the Company employed 480 employees, of which 184 were employed by the parent company in Iceland. Throughout 2002 an average of 431 employees were employed with the Company, of which 161 were employed by the parent company.

During the year, the Company acquired 5.2 million of treasury shares. The share price of the Company was 43.6 at year-end, compared to 52.5 at the beginning of the year. The market value of the Company at year-end was 201 million USD, which corresponds to a decrease of USD 18.3 million over the year. At year-end, shareholders in Ossur hf. numbered 4,429, compared to 4,866 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: Mallard Holding SA, with 24.21%, and AB Industrivärden, with 15. 83%.

The Board of Directors does not recommend payment of dividends to shareholders in 2004. 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 2003 with their signatures.

Reykjavik, 30 January, 2004

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson — Gunnar Stefansson

Heimir Haraldsson — Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson — Bengt Kjell

President and CEO
Jon Sigurdsson

AUDITOR'S REPORT

To the Board of Directors and Shareholders of Ossur hf.

We have audited the accompanying Consolidated Balance Sheets of Ossur hf. and subsidiaries as of December 31, 2003, and the related Consolidated Statements of Income and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit. The Financial Statements of the foreign subsidiaries of Ossur hf. were audited by Deloitte member firms.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our own audit and the audit reports on the Financial Statements of the foreign subsidiaries of Ossur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of December 31, 2003 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 30 January 2004

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2003 AND 2002

	NOTES	2003	2002
NET SALES	6	94,467	81,284
Cost of goods sold		(40,232)	(33,433)
GROSS PROFIT		54,235	47,851
Other income		266	1,030
Sales and marketing expenses		(21,238)	(16,927)
Research and development expenses		(9,592)	(7,103)
General and administrative expenses		(17,559)	(13,350)
PROFIT FROM OPERATIONS		6,112	11,501
Interest income/(expenses)	12	(407)	182
Income from associates		0	154
PROFIT BEFORE TAX		5,705	11,837
Income tax	31	(1,044)	(1,781)
NET PROFIT FOR THE YEAR		4,661	10,056
EARNINGS PER SHARE	13		
Basic Earnings per Share (US cent)		1.45	3.12
Diluted Earnings per Share (US cent)		1.44	3.10

All amounts in thousands of USD

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2003	31.12.2002
FIXED ASSETS			
Property, plant and equipment	14	14,950	10,220
Goodwill	15	23,599	0
Other intangible assets	16	5,569	751
Investments held to maturity	18	448	523
Available for sale investments	19	476	410
Deferred tax asset	31	20,529	20,932
		65,571	32,836
CURRENT ASSETS			
Inventories	20	12,415	12,358
Accounts receivable	21	14,965	12,403
Other receivables	21	4,586	1,562
Investments held for trading	22	262	1,190
Bank balances and cash	21	4,327	11,076
		36,555	38,589
TOTAL ASSETS		102,126	71,425

All amounts in thousands of USD

31 DECEMBER 2003 AND 2002

EQUITY AND LIABILITIES

	NOTES	31.12.2003	31.12.2002
STOCKHOLDERS' EQUITY			
Share capital	23	3,083	3,123
Capital reserves	24	24,412	26,903
Translation reserves	25	2,448	368
Accumulated profits	26	14,068	9,467
		44,011	39,861
LONG-TERM LIABILITES			
Loans from credit institutions	28	34,892	11,528
Obligation under finance leases	29	767	1,016
Other long-term liabilities	30	482	1,341
Deferred tax liabilities	31	2,206	742
		38,347	14,627
CURRENT LIABILITES			
Long-term liabilities - due within one year	32	3,314	5,132
Accounts payable		4,263	2,927
Tax liabilities		606	1,280
Other current liabilities		9,872	7,288
Provisions	33	1,713	310
		19,768	16,937
TOTAL EQUITY AND LIABILITIES		102,126	71,425

All amounts in thousands of USD

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2003 AND 2002

	NOTES	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		6,112	11,501
Depreciation and amortization	14, 16	3,316	2,809
Loss on disposal of operating fixed assets		9	25
Changes in current assets and liabilities		4,839	(2,260)
CASH GENERATED BY OPERATIONS		14,276	12,075
Interest received		195	138
Interest paid		(1,416)	(890)
Taxes paid		(2,672)	(820)
NET CASH PROVIDED BY OPERATING ACTIVITIES		10,383	10,503
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	14, 16	(4,686)	(3,572)
Proceeds from sale of fixed assets		196	86
Acquisition of subsidiaries	34, 35	(29,867)	0
Sale of associated companies		0	174
Purchases of investments held to maturity	18	(128)	0
Installments of bonds	18	261	340
Purchases of available for sale investments	19	(5)	0
Proceeds from sale of available for sale investments	19	11	0
Purchases of trading investments	22	(4,099)	(6,717)
Proceeds from sale of trading investments	22	5,152	6,070
NET CASH USED IN INVESTING ACTIVITIES		(33,165)	(3,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing of long-term liabilities		32,000	5,227
Repayments of long-term liabilities		(13,305)	(5,549)
Purchases of treasury stock		(3,061)	(2,961)
Sales of treasury stock		0	1,589
Exercised share options		61	52
NET CASH PROVIDED BY FINANCING ACTIVITIES		15,695	(1,642)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(7,087)	5,242
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS		338	290
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		11,076	5,544
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,327	11,076
OTHER INFORMATION			
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income		4,661	10,056
Items not affecting cash		4,113	4,605
WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES		8,774	14,661
Changes in current assets and liabilities		1,609	(4,158)
NET CASH PROVIDED BY OPERATING ACTIVITIES		10,383	10,503

All amounts in thousands of USD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2003

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION RESERVES	ACCUMULATED PROFITS	TOTAL
Balance at 1 January 2002	3,142	27,406	0	0	30,548
Translation difference of shares in foreign companies			368		368
Net gains / losses not recognised in the income statement	0	0	368	0	368
Purchases of treasury stock	(55)	(2,905)			(2,960)
Sales of treasury stock	29	1,559			1,588
Exercised share options	2	50			52
Allocation of treasury stock to sellers of subsidiaries	5	204			209
Net profit for the year				10,056	10,056
Transferred to statutory reserves		589		(589)	0
Balance at 1 January 2003	3,123	26,903	368	9,467	39,861
Translation difference of shares in foreign companies			2,080		2,080
Net gains / losses not recognised in the income statement	0	0	2,080	0	2,080
Purchases of treasury stock	(50)	(3,011)			(3,061)
Exercised share options	2	59			61
Allocation of treasury stock to sellers of subsidiaries	8	401			409
Net profit for the year				4,661	4,661
Transferred to statutory reserves		60		(60)	0
Balance at 31 December 2003	3,083	24,412	2,448	14,068	44,011

All amounts in thousands of USD

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATIONS

Ossur hf. designs, manufactures and markets prosthetic and orthotic solutions. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs and ankle and knee braces. The principal market areas of the Company are North America, Western Europe and Japan, which are served by companies in the United States, Canada, Sweden and the Netherlands, in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in four places during the period: at Ossur North America, Inc., in Aliso Viejo, California, which assembles prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees; at Mauch, Inc. in Dayton, Ohio, which manufactures components for spinal implants, and at Ossur hf. in Iceland, which manufactures sockets, prosthetic feet and components. Orthotic devices are manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada, Generation II in Seattle in the US and Ossur Nordic, AB in Uppsala, Sweden. The parent company operates a prosthetic workshop in Iceland.

According to organizational structure, the consolidation is divided into four divisions, i.e. Corporate Finance; responsible for overall financial management; Manufacturing & Operations, responsible for all production and inventory management; Sales and Marketing, responsible for overall marketing and sales units and R & D and Product Management; responsible for Quality Control, Product Development and New Product Management.

Localized marketing, sales distribution and services is handled by five independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada and Seattle in the US, Ossur Europe, B.V., Netherlands, and Ossur Nordic, AB, Sweden.

2. REPORTING CURRENCY

By legislation of Icelandic Act no. 144/1994 on Financial Statements, Icelandic legal entities were permitted to report the results of their operations and financial position in foreign currencies from 1 January 2002. Accordingly, the board of Ossur hf. decided to report in US dollars, which is the consolidated companies' functional currency.

3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ossur Consolidation has adopted the International Financial Reporting Standards (IFRS) in accordance with IFRS 1, First time adoption of International Financial Reporting Standards. The adoption does not materially impact individual balances in the opening balance sheet. The adoption mainly impacts the presentation and note disclosures of the Consolidated Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are prepared under the historical cost convention except for revaluation of certain financial instruments.

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises 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 Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial minority interest is not accounted for in the Consolidated Financial Statements.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses,

All amounts in thousands of USD

assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the Consolidated Financial Statements. Unrealised gain in inventories resulting from intercompany transactions has been eliminated and calculated income tax in the Consolidated Financial Statements adjusted accordingly.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Consolidation.

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Consolidation´s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at each balance sheet date. The amount of impairment is calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on weighted average cost of capital, which represents the cost of debt and equity after taxation. Impairment charges are measured on the basis of comparison of estimated fair values (discounted expected future cash flows) with corresponding book values.

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

RISK MANAGEMENT

Ossur overall philosophy towards foreign exchange risk is to manage risk by applying natural hedging to as much extent as possible and that way keep risk within acceptable level. The company does not apply forward contracts, derivatives or other form of financial hedging tools.

Long term financing is managed from Corporate Finance and individual subsidiaries do not engage in substantial external financing contracts with banks or credit institutions. Approximately 50% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

More than 80% of the company's long term debt are bullet loans that will become due 2008. Interests are paid periodically. This limits considerably the cash flow and the liquidity risk for the company for the next 4-5 years. The loans are however subject to financial covenants the major ones being debt to EBITDA ratio and equity ratio.

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

REVENUE RECOGNITION

Revenue from product sales are recognized when earned as required by generally accepted accounting principles. Product sales are recognised when goods are delivered and title has passed and are shown in the Income Statement net of value added tax, discount and internal sales.

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

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their cost value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases.

FOREIGN CURRENCIES

Transactions in currencies other than USD are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

For consolidation purposes, the assets and liabilities of the consolidation's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for each quarter. Translation differences from foreign companies are posted to translation reserves among equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

BORROWING COSTS

All borrowing costs are recognised in net profit in the period in which they are incurred.

TAXATION

The income tax currently payable is based on taxable profit for the year. 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 years 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 is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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.

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 year is recognised as an expense, on the following bases:

Buildings	5%
Fixtures and furniture	10-34%
Automobiles	10-32%
Machinery and equipment	12-20%

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.

OTHER INTANGIBLE ASSETS

Other intangible assets are recognised in an acquisition of subsidiaries only if an asset can be identified (such as patents and new technical solutions), it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

Other intangible assets consist of capitalized development expenses from previous years and the cost of obtaining patents and technical solutions. These assets are amortized by 10-20% annually. Intangible assets where identified on acquisition of subsidiaries during the year. These include non-compete agreements, non-disclosure agreements, patented and unpatented technology. These intangible assets will be amortized on a straight-line basis over their useful life. The amortization charge for each year is recognised as an expense.

All research and development costs and costs relating to internally-generated patents incurred during the year are expensed.

INVESTMENTS

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (Investments held to maturity) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investments other than held to maturity are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in net profit or loss for the period.

IMPAIRMENT

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.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately, 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

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Cost comprises direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the standard costing method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

ACCOUNTS RECEIVABLE

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off. Accounts receivable in other currencies than USD, have been entered at the exchange rates prevailing on the balance sheet date.

STOCK OPTION CONTRACTS AND OBLIGATIONS TO INCREASE SHARE CAPITAL

The consolidated companies have made stock option agreements with directors, employees and other parties relating to operations. Furthermore, a portion of the purchase price of companies purchased by the consolidation is contingent upon the achievement of specified operating results. These agreements represent an obligation to increase share capital in the future.

The difference between market price and exercise price on the contract date is entered as an increase in the acquisition price of the companies acquired by Ossur hf., or charged proportionally to expense over the remaining term until the first exercise date of the contract. Where the market price on the contract date is equal to or lower than the exercise price, no entry has been made.

LONG-TERM LIABILITIES

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Long-term liabilities in other currency than USD, are recorded at the exchange rates prevailing on the balance sheet date. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing fees are expensed in the period they are incurred.

ACCOUNTS PAYABLE

Accounts payable are valued at nominal value and accounts payable in other currencies than USD have been booked at the exchange rates prevailing on the balance sheet date.

PROVISIONS

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 Consolidation's liability.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

5. QUARTERLY STATEMENTS

	Q1 1.1. – 31.3.	Q2 1.4. – 30.6.	Q3 1.7. – 30.9.	Q4 1.10. – 31.12.	TOTAL 1.1. – 31.12.
Net sales	21,692	22,726	22,398	27,651	94,467
Cost of goods sold	(9,129)	(9,019)	(9,676)	(12,408)	(40,232)
GROSS PROFIT	12,563	13,707	12,722	15,243	54,235
Other income	82	22	40	122	266
Sales and marketing expenses	(4,872)	(5,013)	(4,080)	(7,273)	(21,238)
Research and development expenses	(2,257)	(2,595)	(1,990)	(2,750)	(9,592)
General and administrative expenses	(3,546)	(3,572)	(3,750)	(6,691)	(17,559)
PROFIT (LOSS) FROM OPERATIONS	1,970	2,549	2,942	(1,349)	6,112
Interest income/(expenses)	(126)	(247)	(114)	80	(407)
PROFIT (LOSS) BEFORE TAX	1,844	2,302	2,828	(1,269)	5,705
Income tax	(440)	(394)	(562)	352	(1,044)
NET PROFIT (LOSS) FOR THE PERIOD	1,404	1,908	2,266	(917)	4,661
EBITDA	2,642	3,206	3,658	(78)	9,428

All amounts in thousands of USD

6. NET SALES

Net sales are specified as follows according to markets:	2003	2002
North America	49,488	46,118
Europe, other	24,387	16,995
Northern Europe	14,089	11,783
International markets	6,503	6,388
	94,467	81,284

Net sales are specified as follows according to product lines:

Prosthetics	79,482	72,899
Orthotics	11,814	4,529
Other products	3,171	3,856
	94,467	81,284

Net sales are specified as follows according to currency:

Canadian dollar, CAD	4,046	2,149
Swiss Franc, CHF	656	315
Euro, EUR	18,999	14,334
British Pound, GBP	5,760	4,016
Icelandic Krona, ISK	1,629	1,241
Japanese Yen, JPY	0	221
Norwegian Krona, NOK	3,873	3,132
Swedish Krona, SEK	8,404	9,806
US Dollar, USD	51,100	46,070
	94,467	81,284

All amounts in thousands of USD

7. SEGMENT REPORTING

Segment information about the consolidation businesses is presented below, according to location of customers:

2003	NORTH AMERICA	EUROPE, OTHER	NORTHERN EUROPE	INTERNATIONAL MARKETS	ELIMINATIONS	CONSOLIDATED
REVENUE						
External sales	49,488	24,387	14,089	6,503	0	94,467
Inter-segment sales	11,256	0	30,089	0	(41,345)	0
Total revenue	60,744	24,387	44,178	6,503	(41,345)	94,467
NET PROFIT						
Segment result	3,055	(1,900)	5,354	(531)	(1,317)	4,661
OTHER INFORMATION						
Capital additions	8,363	801	3,780	3	(507)	12,440
Depreciation and amortisation	1,744	300	1,264	8	0	3,316
BALANCE SHEET						
	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003
ASSETS						
Segment assets	92,613	16,065	103,720	1,020	(111,292)	102,126
LIABILITIES						
Segment liabilities	96,517	10,076	48,073	0	(96,551)	58,115

All amounts in thousands of USD

7. SEGMENT REPORTING (CONTINUED)

2002	NORTH AMERICA	EUROPE, OTHER	NORTHERN EUROPE	INTERNATIONAL MARKETS	ELIMINATIONS	CONSOLIDATED
REVENUE						
External sales	46,118	16,995	11,783	6,388	0	81,284
Inter-segment sales	9,577	0	21,493	0	(31,070)	0
Total revenue	55,695	16,995	33,276	6,388	(31,070)	81,284
NET PROFIT						
Segment result	3,536	(1,445)	9,942	(351)	(1,626)	10,056
OTHER INFORMATION						
Capital additions	1,430	391	2,790	4	0	4,615
Depreciation and amortisation	1,731	214	859	5	0	2,809

BALANCE SHEET	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002
ASSETS						
Segment assets	43,133	10,932	86,734	1,012	(70,386)	71,425
LIABILITIES						
Segment liabilities	68,215	4,922	25,248	0	(66,821)	31,564

All amounts in thousands of USD

8. SALARIES

	2003	2002
Salaries	26,568	18,853
Salary-related expenses	7,678	6,591
	34,246	25,444
Average number of positions	480	431

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

	2003	2002
Cost of goods sold	12,233	9,155
Sales and marketing	11,071	7,932
Research and development	4,340	3,460
General and administrative	6,602	4,897
	34,246	25,444

9. MANAGEMENT SALARIES AND BENEFITS

	SALARIES	SHARE OPTIONS	SHARES OWNED
Petur Gudmundarson Chairman of the Board	38	300,000	1,238,641
Ossur Krisinsson Vice Chairman	59	150,000	79,531,846
Four other members of the Board	64	450,000	1,887,500
Jon Sigurdson President and CEO	457	2,000,000	7,882,368
Four other Executives	616	1,500,000	2,733,243
	1,234	4,400,000	93,273,598

Share options of board members, president and other executives were made during the years 2000 - 2001 and are exercisable in the years 2005 - 2006 with the condition that the relevant executive is still a member of the management. Share options of board members, president and three other executives were made at a share price of ISK 73.7 and one executive at a share price of ISK 46. No dividends, loans or commitments have been extended to these persons.

10. FEES TO AUDITORS

	2003
Audit of financial statements	215
Review of interim financial statements	92
Other services	136
	443

The amount includes payments to elected auditors of all companies within the consolidation.

11. RESTRUCTURING COSTS

Restructuring costs, classified by operational category, are specified as follows:

	2003
Cost of goods sold	162
Sales and marketing	480
Research and development	556
General and administrative	333
	1,531

The restructuring costs represent severance costs associated with changes in the management team. Also are included costs relating to the elimination of R&D functions in Aliso Viejo, California, various positions in Iceland and reorganisation relating to the acquisition of the Generation II companies.

All amounts in thousands of USD

12. INTEREST INCOME / (EXPENSES)

INCOME FROM INVESTMENTS:	2003	2002
Interest on bank deposits	150	75
Profit from investments held to maturity	58	22
Profit / (loss) from available for sale investments	72	(155)
Profit from trading investments	125	90
Other interest income	43	17
	448	49
FINANCE COSTS:		
Interest on bank loans	(1,138)	(792)
Interest on obligations under finance leases	(63)	(53)
Other interest expenses	(141)	(75)
	(1,342)	(920)
Exchange rate differences	487	1,053
	(407)	182

13. EARNINGS PER SHARE

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

	2003	2002
Net profit for the year	4,661	10,056
Total average number of shares outstanding (in thousands)	322,186	322,669
Total average number of shares including potential shares (in thousands)	323,431	323,875
Basic Earnings per Share (US cent)	1.45	3.12
Diluted Earnings per Share (US cent)	1.44	3.10

All amounts in thousands of USD

14. PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS AND SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
At 1 January 2003	3,634	9,047	4,802	17,483
Correction	(605)		605	0
Adjusted opening balance	3,029	9,047	5,407	17,483
Additions	197	3,366	1,118	4,681
Acquired on acquisition of subsidiary	373	4,909	2,018	7,300
Exchange differences	(1)	481	127	607
Eliminated on disposal		(455)	(121)	(576)
At 31 December 2003	3,598	17,348	8,549	29,495
ACCUMULATED DEPRECIATION				
At 1 January 2003	567	4,152	2,544	7,263
Correction	(202)		202	0
Adjusted opening balance	365	4,152	2,746	7,263
Charge for the year	98	1,615	1,221	2,934
Acquired on acquisition of subsidiary		3,125	1,323	4,448
Exchange differences		222	49	271
Eliminated on disposal	(60)	(197)	(114)	(371)
At 31 December 2003	403	8,917	5,225	14,545
CARRYING AMOUNT				
At 31 December 2003	3,195	8,431	3,324	14,950
At 31 December 2002	2,664	4,895	2,661	10,220

At 1 January 2003 leasehold improvements in the United States and the Netherlands where wrongly classified among buildings and sites. The amount has been reclassified among fixtures & office equipment as shown in the table above. The comparative figures in the balance sheet have been adjusted accordingly.

The management estimates the fair value of buildings and sites at USD 4,500 thousand and other operating fixed asset at their book value.

The carrying amount of the Consolidation's fixtures and equipment includes an amount of USD 1,319 thousand (2002: USD 1,464 thousand) in respect of assets held under finance leases. No other assets are pledged.

All amounts in thousands of USD

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2003	2002
Cost of goods sold	1,372	1,012
Sales and marketing expenses	127	91
Research and development expenses	313	327
General and administrative expenses	1,122	1,281
	2,934	2,711

15. GOODWILL

COST	2003
At 1 January 2003	0
Arising on a acquisition of a subsidiary	22,801
Exchange differences	798
At 31 December 2003	23,599
CARRYING AMOUNT	
At 31 December 2003	23,599

16. OTHER INTANGIBLE ASSETS

COST	2003	2002
At 1 January 2003 / 2002	1,255	707
Additions	5	0
Arising on acquisition of a subsidiary	5,060	511
Exchange differences	325	37
At 31 December 2003 / 2002	6,645	1,255
AMORTIZATION		
At 1 January 2003 / 2002	504	406
Charge for the year	382	98
Acquired on acquisition of subsidiary	158	0
Exchange differences	32	0
At 31 December 2003 / 2002	1,076	504
CARRYING AMOUNT		
At 31 December 2003 / 2002	5,569	751

The amortization of other intangible assets, classified by operational category, is specified as follows:

	2003	2002
Research and development expenses	256	82
General and administrative expenses	126	16
	382	98

All amounts in thousands of USD

17. THE CONSOLIDATION

The Consolidated Financial Statements of Ossur hf. pertain to the following subsidiaries:

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
Ossur Engineering, AB	Sweden	100%	Manufacturer
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Mega Hali Med, AB	Sweden	100%	No operation
Ossur Holdings, Inc.	USA	100%	Holding
Ossur Engineering, Inc.	USA	100%	Manufacturer
Ossur North America, Inc.	USA	100%	Sales, distribution and services
Mauch, Inc.	USA	100%	Manufacturer, sales, distribution and services
Generation II USA, Inc	USA	100%	Manufacturer, sales
Linea Orthopedics, AB	Sweden	100%	Manufacturer
Generation II Orthotics, Inc.,	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA	Belgium	100%	Holding
GII Orthotics Europe, NV	Belgium	100%	Sales, distribution and services
Ossur UK, Ltd.	Great Britain	100%	No operation
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services

Ossur hf. also operates a finance branch in Switzerland to govern intercompany long-term liabilities and investments.

Ossur hf. acquired at 1 July 2003 the prosthetics producer Linea Orthopedics, AB of Sweden. Linea Orthopedics, AB is a start-up company developing and manufacturing high-quality cosmetic covers designed for artificial hands. Linea Orthopedics, AB activities was relocated to Iceland in the beginning of 2004.

Ossur hf. acquired the Generation II Group at 3 October 2003, a leading North American developer and manufacturer of orthotic knee braces. Generation II manufactures and markets a diverse product line of customized and off-the-shelf braces and specializes in braces for ligament injuries, osteoarthritis, and post operative conditions.

All amounts in thousands of USD

18. INVESTMENTS HELD TO MATURITY

	2003	2002
At 1 January 2003 / 2002	523	583
Investments during the year	128	258
Installments of bonds	(261)	(340)
Exchange differences	58	22
At 31 December 2003 / 2002	448	523

The investments included above represent investments in bonds and other long-term receivables which present the Consolidation with opportunity for return through interest income and trading gains. The investments are valued at cost, less an allowance based on impairment by the management.

19. AVAILABLE FOR SALE INVESTMENTS

	2003	2002
At 1 January 2003 / 2002	410	565
Purchased during the year	5	0
Disposed of during the year	(11)	0
Fair value and exchange rate adjustments	72	(155)
At 31 December 2003 / 2002	476	410

The investments included above represent investments in listed equity securities which present the Consolidation with opportunity for return through dividend income and trading gains. The fair values of these securities are based on quoted market prices.

20. INVENTORIES

	31.12.2003	31.12.2002
Raw material	6,585	5,764
Work in progress	248	292
Finished goods	5,582	6,302
	12,415	12,358

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 6,648 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,765 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The Consolidation recognises obsolete and defective inventory among cost of good sold in the Income statement. A general allowance amounting to USD 511 thousand (2002: USD 246 thousand) is deducted from inventories in the balance sheet and does not represent a final write-off. The allowance is based on management's best estimate and past experience.

Inventories have not been pledged.

All amounts in thousands of USD

21. OTHER FINANCIAL ASSETS

ACCOUNTS RECEIVABLE:	31.12.2003	31.12.2002
Nominal value	16,372	14,132
Allowances for doubtful accounts	(843)	(1,210)
Allowances for sales return	(564)	(519)
	14,965	12,403

The average credit period taken on sale of goods is 47 days. An 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 trade receivables approximates their fair value.

OTHER RECEIVABLES:	31.12.2003	31.12.2002
VAT refundable	862	718
Prepaid expenses	2,280	457
Receivable from previous Generation II shareholders	550	0
Lawsuit settlements generated from Generation II	440	0
Other	454	387
	4,586	1,562

The Directors consider that the carrying amount of other receivables approximates their fair value.

BANK BALANCES AND CASH:

Bank balances and cash comprise cash and short-term deposits held by the Consolidation treasury function. The carrying amount of these assets approximates their fair value.

22. INVESTMENTS HELD FOR TRADING

	2003	2002
At 1 January 2003 / 2002	1,190	453
Purchased during the year	4,099	6,717
Disposed of during the year	(5,152)	(6,070)
Fair value and exchange rate adjustments	125	90
At 31 December 2003 / 2002	262	1,190

23. SHARE CAPITAL

	SHARES	RATIO	NOMINAL VALUE
Total share capital at year-end	318.1	96.9%	3,083
Treasury stock at year-end	10.3	3.1%	100
	328.4	100.0%	3,183

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

Changes in share capital are as follows:

	COMMON STOCK
Share capital as of 1 January 2002	3,142
Purchases of treasury stock	(55)
Sales of treasury stock	29
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	5
Share capital as of 1 January 2003	3,123
Purchases of treasury stock	(50)
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	8
Balance at 31 December 2003	3,083

All amounts in thousands of USD

24. CAPITAL RESERVES

	SHARE PREMIUM	STATUTORY RESERVES	TOTAL
Balance at 1 January 2002	27,259	147	27,406
Purchases of treasury stock	(2,905)		(2,905)
Sales of treasury stock	1,559		1,559
Exercised share options	50		50
Allocation of treasury stock to sellers of subsidiaries	204		204
Transferred from accumulated profits		589	589
Balance at 1 January 2003	26,167	736	26,903
Purchases of treasury stock	(3,011)		(3,011)
Exercised share options	59		59
Allocation of treasury stock to sellers of subsidiaries	401		401
Transferred from accumulated profits		60	60
Balance at 31 December 2003	23,616	796	24,412

25. TRANSLATION RESERVES

	TRANSLATION RESERVES
Balance at 1 January 2002	0
Exchange differences arising on translation of subsidiaries	341
Exchange differences arising on translation of associates	27
Balance at 1 January 2003	368
Exchange differences arising on translation of subsidiaries	2,080
Balance at 31 December 2003	2,448

26. ACCUMULATED PROFITS

	ACCUMULATED PROFITS
Balance at 1 January 2002	0
Transferred to statutory reserves	(589)
Net profit for the year	10,056
Balance at 1 January 2003	9,467
Transferred to statutory reserves	(60)
Net profit for the year	4,661
Balance at 31 December 2003	14,068

All amounts in thousands of USD

27. STOCK OPTION CONTRACTS AND OBLIGATIONS TO INCREASE SHARE CAPITAL

Following is a schedule of stock option agreements and obligations to increase share capital assuming all conditions will be fully met:

	NUMBER OF SHARES (IN THOUSANDS)			
CONTRACT RATE / CONDITIONS	2004	2005	2006	TOTAL
3.125 / conditional	1,287	0	0	1,287
24.0 / conditional	84	84	0	168
46.0 / conditional	0	0	1,000	1,000
58.5 / conditional	400	400	0	800
73.7 / conditional	0	3,400	0	3,400
	1,771	3,884	1,000	6,655

At 31 December 2003, the total outstanding number of shares in Ossur hf. amounted to 328,441,000. The Articles of Association of the Company authorizes the Board of Directors to issue up to 10,000,000 shares for the purposes of the above contracts. This authorization is valid until 24 March 2005. The listed market price per share at year-end 2003 was 43.6.

Ossur hf. has contractual obligations from the purchase of Swedish subsidiaries in the year 2000 to issue 549,608 shares in the year 2004 to the sellers subject to certain conditions. The Company will utilize treasury shares to fulfill these agreements. The debt is entered in the accounts of the parent company.

28. LOANS FROM CREDIT INSTITUTIONS

	REMAINING BALANCES 31.12.2003	31.12.2002
Loans in USD	25,600	9,249
Loans in EUR	10,199	5,654
Loans in ISK	25	43
	35,824	14,946
Current maturities	(932)	(3,418)
Loans from credit institutions	34,892	11,528

Aggregated annual maturities are as follows:

In 2004 / 2003	932	3,418
In 2005 / 2004	906	7,382
In 2006 / 2005	906	754
In 2007 / 2006	906	754
In 2008 / 2007	30,813	754
Later	1,361	1,884
	35,824	14,946

The terms of a USD 28 million and EUR 9.2 million loan facilities include various provisions that limits certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

All amounts in thousands of USD

29. OBLIGATION UNDER FINANCE LEASES

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Finance leases in USD	704	860	650	784
Finance leases in EUR	547	592	512	545
Finance leases in ISK	49	112	48	99
	1,300	1,564	1,210	1,428
Current maturities	(494)	(475)	(443)	(412)
Obligation under finance leases	806	1,089	767	1,016

Aggregated annual maturities are as follows:

In 2004 / 2003	494	475	444	412
In 2005 / 2004	439	419	411	390
In 2006 / 2005	316	367	305	344
In 2007 / 2006	51	258	50	253
In 2008 / 2007	0	45	0	29
	1,300	1,564	1,210	1,428
Less: future finance charges	(90)	(136)		
Remaining balances	1,210	1,428		

The management estimates that the fair value of the consolidated lease obligations approximates their carrying amount.

The obligations under finance leases are pledged by the lessor's charge over the leased assets.

30. OTHER LONG-TERM LIABILITIES

	REMAINING BALANCES	
	31.12.2003	31.12.2002
Other liabilities in USD	2,420	2,643
Current maturities	(1,938)	(1,302)
Other long-term liabilities	482	1,341

Aggregated annual maturities are as follows:

In 2004 / 2003	1,938	1,302
In 2005 / 2004	287	969
In 2006 / 2005	52	372
In 2007 / 2006	50	0
In 2008 / 2007	48	0
Later	45	0
	2,420	2,643

All amounts in thousands of USD

31. DEFERRED TAX

	DEFERRED TAX ASSET	DEFERRED TAX LIABILITIES	TOTAL
At 1 January 2003	20,932	(742)	20,190
Arising on acquisition of a subsidiary	0	(1,688)	(1,688)
Calculated tax for the year	(1,086)	42	(1,044)
Income tax payable for the year	497	313	810
Exchange differences	186	(131)	55
At 31 December 2003	20,529	(2,206)	18,323

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

	31.12.2003
Intangible assets	(1,566)
Fixed tangible assets	(329)
Goodwill	14,635
Inventories	1,971
Accrued expenses	510
Reserves and credits	426
Other	150
Loss carry-forward	2,526
	18,323

At balance sheet date the consolidation has unused tax losses available for offset against future profits as follows:

	TAX LOSS	DEFERRED TAX
Available for 10 years	2,299	414
Available for 15 years	1,869	455
Available indefinitely	4,802	1,657
	8,970	2,526

32. LONG-TERM LIABILITIES - DUE WITHIN ONE YEAR

	31.12.2003	31.12.2002
Loans from credit institutions	932	3,418
Obligations under finance leases	444	412
Other long-term liabilities	1,938	1,302
	3,314	5,132

33. PROVISIONS

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	TOTAL
At 1 January 2003	304	6	310
Acquired on acquisition of subsidiary	49	0	49
Additional provision in the year	335	1,387	1,722
Utilisation of provision	(296)	(72)	(368)
At 31 December 2003	392	1,321	1,713

The warranty provision represents management's best estimate of the Consolidation's liability under warranties granted on prosthetics products, based on past experience and industry averages for defective products.

A restructuring provision was established in 2003, relating to planned changes in connection with the acquisition of the Generation II Group and other reorganisation of the company.

All amounts in thousands of USD

34. ACQUISITION OF LINEA ORTHOPEDICS, AB

On 1 July 2003 Ossur hf. acquired 100 per cent of the issued share capital of the prosthetics producer Linea Orthopedics, AB of Sweden for USD 682,651. This transaction has been accounted for by the purchase method of accounting.

NET ASSETS ACQUIRED:	ACQUISITION 01.07.2003
Operating fixed assets	331
Other intangible assets	458
Current assets	65
Long-term liabilites	(33)
Deferred tax liability	(87)
Current liabilites	(51)
Total consideration	683
Satisfied by cash	232
Satisfied by treasury stock	201
NPV of future payments	250
	683

NET CASH OUTFLOW ARISING ON ACQUISITION:	
Cash consideration	232
Bank balances and cash acquired	(2)
	230

According to the share purchase agreement Ossur hf. shall pay up to a maximum of USD 300,000 in cash according to a 5 year deferred purchase price plan under which the annual payment shall be calculated as 20% of sales. The amount has been discounted with the assumption of equal payments and 5% interest.

Linea Orthopedics, AB contributed USD 70 thousand of revenue and generated loss of USD 111 thousand for the period between the date of acquisition and the balance sheet date.

35. ACQUISITION OF GENERATION II GROUP

On 3 October 2003 Ossur hf acquired 100 per cent of the issued share capital of the Generation II Group including Generation II Orthotics, Inc. in Canada, Generation II USA, Inc in Seattle, Generation II Orthotics Europe Holding SA, in Belgium and Generation II Orthotics Europe NV in Belgium, for cash consideration of USD 32.6 million. This transaction has been accounted for by the purchase method of accounting.

NET ASSETS ACQUIRED:	ACQUISITION 3.10.2003
Operating fixed assets	2,521
Other intangible assets	4,444
Current assets	7,865
Bank and cash balances	2,096
Long-term liabilites	(570)
Deferred tax liability	(1,601)
Current liabilites	(4,961)
	9,794
Goodwill	22,801
Total consideration	32,595
Satisfied by cash	31,733
Accounts payable	862
	32,595

NET CASH OUTFLOW ARISING ON ACQUISITION:	
Cash consideration	31,733
Bank balances and cash acquired	(2,096)
	29,637

All amounts in thousands of USD

According to the share purchase agreement the cash consideration included a working capital adjustment which was subject to change after the purchasers review of the opening balance of the companies. The companies have been subject to a review which concluded that the sellers should reimburse USD 550 thousand of the working capital adjustment. The amount has been booked among the purchase entries and is included with other receivables.

Generation II Group contributed USD 5.9 million of net sales and USD 513 thousand loss before tax for the period between the date of acquisition and the balance sheet date.

36. OPERATING LEASE ARRANGEMENTS

	2003	2002
Minimum lease payments under operating leases recognised in Income Statement for the year	2,172	1,431

At the balance sheet date, the Consolidation had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	31.12.2003	31.12.2002
In 2004 / 2003	2,949	1,421
In 2005 / 2004	2,646	1,430
In 2006 / 2005	1,876	1,162
In 2007 / 2006	1,034	1,031
In 2008 / 2007	525	745
Later	1,006	804
	10,036	6,593

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Eleven rental agreements are in place for premises in Reykjavik, the Netherlands, Sweden, United Kingdom and the United States. The leases expire in the years 2004-2020.

37. INSURANCES

At year-end the official insurance value of the consolidation's assets is specified as follows:

	INSURANCE VALUE	BOOK VALUE
Fixed assets and inventories	43,150	27,365

The consolidation owns buildings situated in California, USA and in Belgium.

The consolidation has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 17,616 thousand USD.

38. LITIGATION

On March 11, 2003 Ossur North America, Inc announced it has filed suit in US against Freedom Innovations Inc. for infringement of four patents to which Ossur holds rights.

In a court ordered mediation on 8 December 2003, Ossur North America Inc. and Freedom Innovations Inc. agreed to settle all litigation associated with the Federal and State court cases. Both parties expressed satisfaction with the settlement, the terms of which are confidential, but involve product licensing.

The legal fees recognised in the Income statement due to these litigation amount to USD 2.2 million.

39. APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial statements were approved by the Board of Directors and authorised for issue on 30 January 2004.

All amounts in thousands of USD

OFFICES

TAX PERCENTAGE

ICELAND, REYKJAVIK
Ossur hf.
Headquarters, Manufacturing, Sales, R&D

SWEDEN, UPPSALA
Ossur Nordic AB.
Sales, Marketing, Distribution and Customer Service

THE NETHERLANDS, EINDHOVEN
Ossur Europe B.V.
Sales, Marketing, Distribution and Customer Service

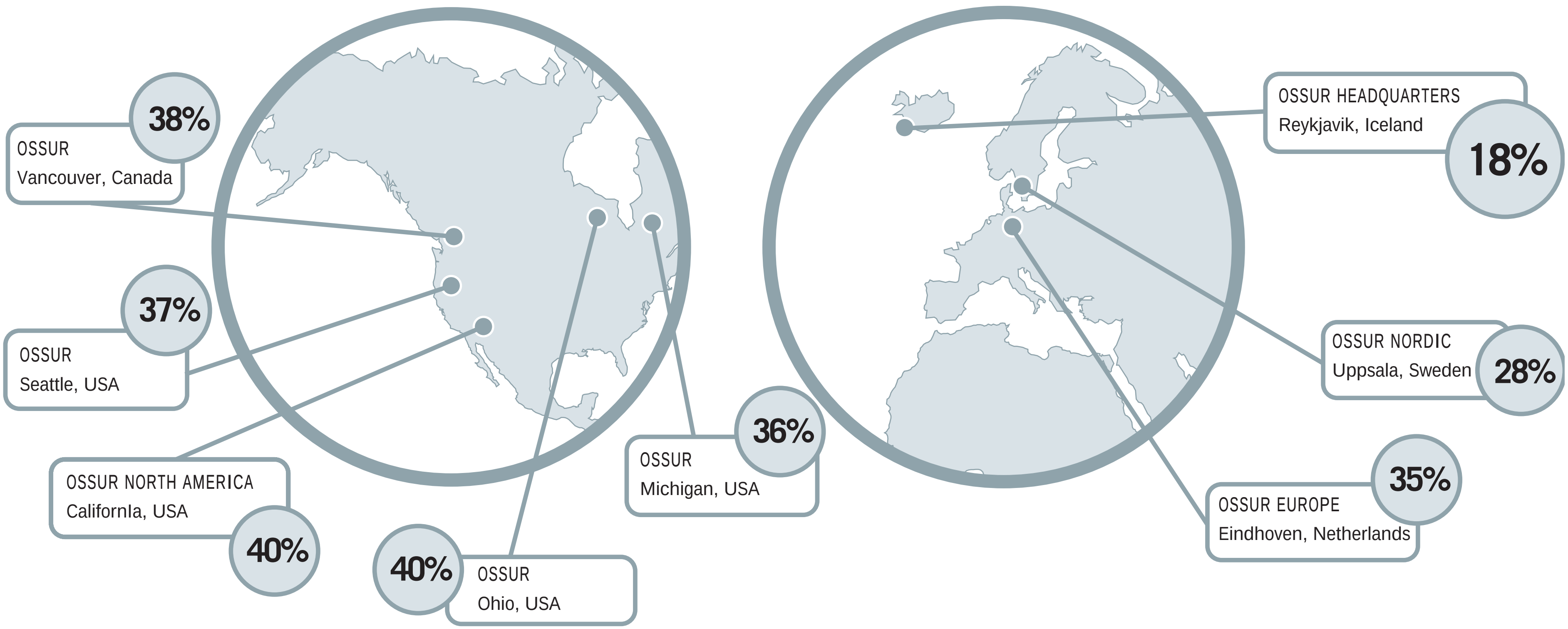
USA, CALIFORNIA
Ossur North America Inc.
Sales, Marketing, Distribution and Customer Service

USA, SEATTLE
Ossur - Generation II
Manufacturing, R&D, Distribution, and Customer Service

CANADA, VANCOUVER
Ossur - Generation II
Customer Service, Manufacturing, R&D and Distribution

USA, OHIO
Ossur Mauch Inc.
Manufacturing

USA, MICHIGAN
Ossur Engineering Inc.
Manufacturing



It is our mission at Ossur to make people’s lives easier and more satisfying. We are constantly looking for ways to develop new products that help people, and when that happens we feel that our work has been rewarded.