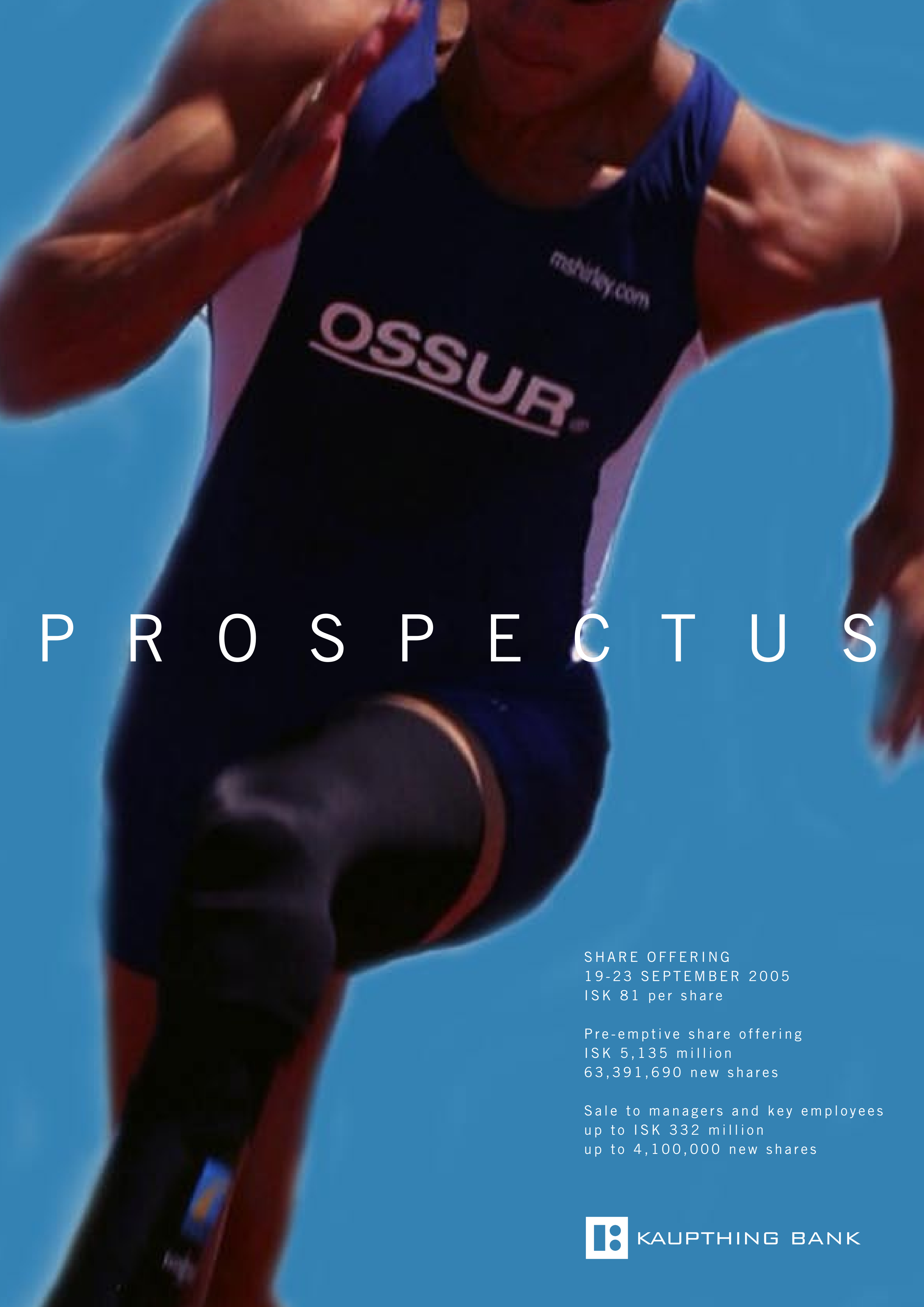
ÖSSUR HF. PROSPECTUS

SEPTEMBER 2005

KAUPTHING BANK



P R O S P E C T U S

SHARE OFFERING
19-23 SEPTEMBER 2005
ISK 81 per share

Pre-emptive share offering
ISK 5,135 million
63,391,690 new shares

Sale to managers and key employees
up to ISK 332 million
up to 4,100,000 new shares

KAUPTHING BANK

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I. STATEMENTS AND NOTICE

ISSUER'S STATEMENT

The Board of Directors of Ossur hf., ID-No. 560271-0189, Grjothals 5, 110 Reykjavík, Iceland, hereby declares that, to the best of its knowledge, the information in this Prospectus both accords fully with the facts and no important items have been omitted which could affect evaluation of the Issuer or its shares.

Reykjavík, 8 September 2005
On behalf of the Board of Directors of Ossur hf.

Petur Gudmundarson
Chairman of the Board
Icelandic ID-No. 050550-2499

Jon Sigurdsson
President & CEO
Icelandic ID-No. 290656-3549

MANAGER'S STATEMENT

Kaupthing Bank hf. – Investment Banking, ID-No. 560882-0419, Borgartun 19, 105 Reykjavík, Iceland, hereby declares that in preparing this Prospectus it has gathered the data which in its estimation was necessary to provide a true and fair picture of Ossur hf. and its shares. To the best of our knowledge no important items have been omitted which could effect the evaluation of the Issuer or the shares for which listing is sought.

Reykjavík, 8 September 2005
On behalf of Kaupthing Bank hf. – Investment Banking

Orvar Kærnested
Managing Director, Investment Banking Division
ID–No. 130776-4429

AUDITORS' STATEMENTS

Deloitte hf., ID-No. 521098-2449, Storhofdi 23, 110 Reykjavík, Iceland, has examined and signed without reservation the Consolidated Annual Accounts of Ossur hf. for the years 2002-2004. Deloitte hf. has reviewed the Consolidated Interim Financial Statement of Ossur hf. for the first six months of 2004 and 2005. We confirm that the information in this Prospectus is consistent with the accounts that we have audited or reviewed.

Reykjavík, 8 September 2005
On behalf of Deloitte hf.

Heimir Thorsteinsson
state authorised public accountant
ID–No. 200670-3889

Thorvardur Gunnarsson
state authorised public accountant
ID–No. 140554-2279

REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the “Issuer” in this Prospectus shall be construed as referring to Ossur hf., Icelandic ID-No. 560271-0189, unless otherwise clear from the context. References to “Ossur hf.”, “Ossur”, “Ossur Consolidation” and “the Company” shall be construed as referring to Össur hf., Icelandic ID-No. 560271-0189, and its subsidiaries and affiliates, unless otherwise clear from the context. Össur hf. is the legal Icelandic name of the Issuer.

References to “the pre-emptive share offering” and “the share offering” in this Prospectus shall be construed as referring to the offering of new shares in Ossur hf. which is subject to shareholders’ pre-emptive rights and will be subscribed for from 19 September to 23 September 2005, unless otherwise clear from the context. The share offering is described in Chapter II of this Prospectus.

References to “ICEX” in this Prospectus shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the “listing” and the “listing on ICEX Main List” in this Prospectus shall be construed as referring to listing of shares on the Main List at the Iceland Stock Exchange, unless otherwise clear from the context.

References to “ISD” in this Prospectus shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, unless otherwise clear from the context.

References to “the Manager” in this Prospectus shall be construed as referring to Kaupthing Bank hf. – Investment Banking Division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context. References to “Kaupthing Bank” or “the Bank” shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, unless otherwise clear from the context. The share offering and the listing of the new shares on ICEX Main List is arranged by Kaupthing Bank hf.’s Investment Banking Division.

The abbreviations used in this Prospectus are listed in the following table.

CEO	Chief Executive Officer
CFO	Chief Financial Officer
DME	Durable Medical Equipment
EBITDA	Earnings before interest, tax, depreciation and amortization
FY (FY 2005)	Fiscal Year (FY 2005: Reporting period beginning 1 July 2004 and ending 30 June 2005)
GP	General Practice
ICEX	Iceland Stock Exchange
ISD	Icelandic Securities Depository
ISK	Icelandic krona
LIBOR	London Inter Bank Offered Rate
LTM	Last Twelve Months
O&P	Orthopaedics and Prosthetics
USD	U.S. dollar
$	U.S. dollar

PUBLICATION CALENDAR OF ACCOUNTS

The following are the estimated dates of earning releases that Ossur hf. has announced for the year 2005.

Interim Accounts Q3 2005	26 October 2005
Annual Accounts 2005	7 February 2006
Annual General Meeting 2006	24 February 2006

NOTICE TO INVESTORS

This Prospectus concerns an offering of new shares in Ossur hf. and a listing of the new shares on the ICEX Main List where all issued shares in Ossur hf. are listed. The offering and listing will proceed pursuant to Icelandic law and regulations. The offering will proceed pursuant to the Icelandic Securities Act no. 33/2003 and Act no. 2/1995 on Public Limited Companies. This Prospectus is prepared pursuant to current legislation and government and ICEX regulations that apply to the listing. ICEX has reviewed and approved this Prospectus, which is only published in English.

Ossur hf. is offering up to 67,491,690 new shares which corresponds to up to 21.2% increase in total share capital. Thereof 63,391,690 new shares are offered to shareholders holding pre-emptive rights and up to 4,100,000 new shares are offered to management and key employees.

The pre-emptive share offering’s subscription period will be from 19 September to 23 September 2005. The share offering constitutes a public offering pursuant to Article 20 of the Icelandic Securities Act and meets conditions on pre-emptive rights pursuant to Article 34 of the Act on Public Limited Companies. The share offering is described in Chapter II of this Prospectus.

Participation in the share offering is available to all individuals and legal entities holding shares in Ossur hf. at the end of 7 September 2005, provided that they were listed in the register of shareholders when it had been updated with reference to the end of that day. Participation is also available to all individuals and all legal entities having been assigned pre-emptive rights to the new shares, so far as the party in question holds an Icelandic ID-No. and only if the third party’s participation is not prohibited by law.

This Prospectus and any related offering documents are not being distributed and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. The Prospectus is not being sent out, directly or indirectly, by use of mail or any other means or instrumentality (including without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) in or into the United States, Australia, Canada or Japan, and the Offer cannot be accepted by any such use, means, instrumentality or facility of, or from within, the United States, Australia, Canada or Japan. Accordingly, the Prospectus, and any related offering documents are not being and may not be mailed or otherwise distributed, forwarded or sent in or into the United States, Australia, Canada or Japan. Neither the pre-emptive rights nor the shares have been or will be registered under the United States Securities Act of 1933, as amended, or any securities laws of any state of the United States, or the securities laws of Australia, Canada or Japan or its provinces. Accordingly, such shares may not be offered, sold, re-sold or delivered, directly or indirectly, within the United States, Australia, Canada or Japan, or to any residents of these countries, except pursuant to an exemption from applicable registration.

This Prospectus has been prepared to provide clear and thorough information in relation to Ossur hf. and its subsidiary undertakings, as well as on the new shares to be issued by Ossur hf. Investors are reminded of the risk related to the fact that Ossur operates in a market that is highly contingent on healthcare reimbursement, which is determined by government and insurance companies and not directly by the end-users. Investors are encouraged to acquaint themselves thoroughly with this Prospectus as well as its Appendices. Investors are advised to pay particular attention to the chapter on Risk Factors. Investors are advised to consider statements made by the Issuer, the Manager and the Auditors regarding this Prospectus. Information provided in this Prospectus is based on facts that were current at the date of publication of this Prospectus. These facts may change from the date of publication until the shares are listed. The Issuer will notify ICEX and publish an annex to the Prospectus should new information of relevance emerge for the evaluation of Ossur hf. or the Company's shares during this period. Investors are therefore advised to study all public information issued by or relating to Ossur hf. and not to rely exclusively on information in this Prospectus.

This Prospectus should not be considered or construed as a promise by the Issuer, Manager or other parties of future success in either operations or return on investments. Investors are reminded that investing in shares entails risk, as the decision to invest is based on expectations and not promises. Investors must primarily rely on their own judgement regarding any decision to invest in Ossur hf.'s shares, bearing in mind the business environment in which the Company operates, anticipated profits, external conditions and the risk inherent in the investment itself. Investors are advised to contact experts such as banks, savings banks and securities firms to assist them in their assessment of the shares in Ossur hf. as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of shares in Ossur hf. and seek external and independent advice in that respect.

The sources of information used in this Prospectus include the comprehensive due diligence reviews conducted on Royce Medical Holdings Inc. and Ossur hf. The due diligence reviews on Royce Medical Holdings Inc., addressed to the Company, were conducted by Deloitte & Touche LLP (finance) and Proskauer Rose LLP (legal). The due diligence reviews on Ossur hf., addressed to the Manager, were conducted by KPMG Endurskodun hf. (finance) and Lex Nestor ehf. (legal). Bank of America Securities Ltd. was the lead advisor to Ossur hf. on the acquisition of Royce Medical Holdings hf. and Kaupthing Bank hf. acted as a co-advisor and led the refinancing of the Company following the acquisition. Deloitte & Touche LLP and Haskell & White (tax) advised the Company on accounting and transaction services related to the acquisition on Royce Medical Holdings Inc.

Attention is drawn to the interests of the party managing and underwriting the pre-emptive share offering. Kaupthing Bank hf. is Ossur hf.'s investment bank and as mentioned above, amongst other things, led the refinancing of the Company following the acquisition of Royce Medical Holdings Inc. in August 2005. Facility agreements between Ossur hf. and Kaupthing Bank hf. in connection with the acquisition of Royce Medical Holdings Inc. amount to $313 million, of which $255 million is used to finance the acquisition, including costs, and to refinance Ossur's previous debts. The share offering is a part of the finalisation of that financing project, which in the beginning included a bridge loan amounting to $80 million, which the Company will repay upon completion of the share offering. Kaupthing Bank hf. holds a 0.2% stake in the Company, as of 7 September 2005. The Bank acts as a market maker for Ossur hf.'s shares on ICEX. If any of Kaupthing Bank hf.'s employees, including their families (dependent children and spouses, i.e. married partner, co-habitant or registered partner) to whom Kaupthing Bank hf.'s rules on proprietary securities trading, employee securities trading and separation of operating units etc. (pursuant to article 15 of Act no. 33/2003) apply, hold pre-emptive rights or an endorsement of such rights in the share offering, then they are only allowed to subscribe until 16:00 GMT on 19 September 2005.

II. OFFERING AND LISTING OF SHARES

Issuer

Ossur hf., Icelandic ID-No. 560271-0189
Headquarters: Grjothals 5, 110 Reykjavík, Iceland
Telephone number: +354 515 1300

Issuer's operations

Ossur hf. is registered in Iceland and operates pursuant to Act no. 2/1995 on Public Limited Companies. Ossur hf. was founded on 30 January 1971.

The object of Ossur hf., according to Article 1.04 of its Articles of Association, is the development and sale of prosthetic devices and components in the field of orthopaedics and rehabilitation as well as various types of services to the health profession and patients. The company is also involved in the operation of workshops for prosthetic devices, the development and sale of products for other uses, investment and participation in other companies and other related business.

Manager of offering and listing on ICEX Main List

Kaupthing Bank hf. – Investment Banking
Icelandic ID-No. 560882-0419
Address: Borgartun 19, IS-105 Reykjavík, Iceland
Telephone number: +354 444 6000

Total share capital, issue and listing

Ossur hf.'s total issued share capital amounts to 318,441,000 shares. Each share amounts to ISK 1. Ossur hf.'s treasury shares amount to 1,434,242 shares, so active share capital amounts to 317,006,758 shares.

This Prospectus concerns the offering and listing on the ICEX Main List of new share capital in Ossur hf. of up to 67,491,690 shares which corresponds to up to 21.2% increase in total share capital. After this increase, total issued share capital will amount to up to 385,932,690 shares.

Ossur hf.'s shares have been listed on the ICEX Main List since 11 October 1999 and are included in the ICEX-15 index. The Company's Board of Directors has not made any resolutions on seeking a listing on other stock exchanges. The shares' ticker symbol in the trading system of ICEX is OSSR. One trading lot amounts to 1,000 shares. A trading lot is the minimum number of shares required for price formation on ICEX.

ICEX has approved this Prospectus and agreed to the listing of the share increase, given that all requirements have been fulfilled.

The outcome of the offering will be announced to ICEX and the relevant media on Friday 23 September 2005 after 17:00 GMT. The outcome will be published through the ICEX news system on Monday 26 September 2005 before 10:00 GMT. The listing is expected to take place no later than 6 October 2005. The date of listing, which may occur earlier or later than 6 October, will be announced one day in advance through the ICEX news system.

Ossur hf.'s shares are all issued electronically at the ISD and are registered under the name of the relevant shareholder. The ISIN number of the shares is IS0000000040.

Authorisation and objective for pre-emptive share offering, sale to management and key employees and following share capital increase

The Board of Directors of Ossur hf. resolved on 6 September 2005 to offer 63,391,690 new shares for sale at a price of ISK 81 a share to those Company's shareholders holding shares at the end of 7 September 2005. The total sales value of the new shares amounts to ISK 5,134,726,890. The subsequent pre-emptive share offering, including the offering terms, is described in this Prospectus.

The Board resolved on 7 September 2005, to sell up to 4,100,000 new shares to management and key employees of the Company. The shares are without application of pre-emptive rights and will be sold on the same terms as in the share offering. Final decision on buyers and number of shares will be taken on 23 September 2005.

By increasing the share capital following the pre-emptive share offering and sale to management and key employees, the Board of Directors is exercising part of the authorisation granted at a shareholders' meeting of the Company on 19 August 2005. Then the Board was authorised to increase the Company's share capital by up to 77,100,000 and to decide the offering price of these shares and rules of the sale at each time, deadlines for subscription and deadlines for payment.The authorisation is split as follows:

A) up to 73,000,000 shares to be sold with shareholders' pre-emptive rights pursuant to the Company's Articles of Association and Chapter V of the Companies Act No. 2/1995 and
B) up to 4,100,000 shares to be sold without the application of the pre-emptive rights provisions of Article 34 of the of the Companies Act No. 2/1995.

The Board announced the following at the shareholders' meeting:

A) The A-part of the authorisation was designed to enable the Company to perform under its financing agreements relating to the acquisition by the Company of all the shares in Royce Medical Holdings Inc. In addition the Board announced its intention to offer new shares, corresponding to USD 80 million of proceeds, before the end of September. The Board would not exercise more of the authorisation than necessary to achieve this target, which would depend on the anticipated offer price and the exchange rate of the US dollar at the time.
B) The B-part of the authorisation was designed to enable the Company to sell shares to key employees and managers or to respond swiftly to any business opportunities that may arise.

The share offering forms part of the financing of Ossur hf.'s acquisition of Royce Medical Holdings Inc. in August 2005 and the subsequent refinancing of Ossur hf. Facility agreements between Ossur hf. and Kaupthing Bank hf. in connection with the acquisition provided Ossur hf. with $313 million, of which $255 million was used to finance the acquisition, including costs, and to refinance Ossur's previous debts. The agreements included a bridge loan amounting to $80 million, which the Company will repay upon completion of the share offering.

Underwriting

The Manager has agreed to underwrite the pre-emptive share offering in full at the offering price of ISK 81 for each share. The shares will not be offered for sale in a public offering following the pre-emptive share offering.

Cost and cash flow

The total sales value of the 67,491,690 new shares Ossur hf. is offering, amounts to ISK 5,467 million. The cost of the offering is expected to amount to approximately ISK 147 million, including underwriting fees, stamp duties, costs incurred at ICEX and ISD, printing costs and advertising costs. The Issuer will bear these costs in full. Net cash flow to Ossur hf. from the offering is therefore expected to amount to approximately ISK 5,320 million.

PRE-EMPTIVE SHARE OFFERING 19-23 SEPTEMBER 2005

Pre-emptive rights, assignment, additional subscription and allocation

Shareholders owning shares in Ossur hf. at the end of 7 September 2005 and who were listed in the register of shareholders when it had been updated with reference to the end of that day have pre-emptive rights to the new shares offered to shareholders. The shares will be offered to shareholders of Ossur hf. in correct proportion to their shareholdings on that day. Each share grants pre-emptive rights to 0.2 new shares in the rights issue and 5 whole shares are required to grant pre-emptive rights to one new share.

Shareholders are authorised to subscribe for fewer shares than they are entitled to according to their pre-emptive right. If any shareholders do not exercise their pre-emptive right in full, this right is transferred to other shareholders in the Company. Shareholders are also authorised to subscribe for more shares than they are entitled to according to their pre-emptive right, and unexercised pre-emptive rights will be allocated in proportion to shareholding at the end of 7 September 2005.

Shareholders are permitted to assign their pre-emptive rights partially or wholly. Rights to additional subscription are non-assignable. A special assignment form will be available on Kaupthing Bank's website. In order for the assignment to be valid, the form must be signed by both the assigner (shareholder/endorser) and the assignee (buyer/endorsee). The signed assignment form should be sent to Kaupthing Bank hf. - Investment Banking at Borgartun 19 in Reykjavík or to Kaupthing Bank hf. – Consultants at Austurstræti 5, fourth floor, 101 Reykjavík, and be received before the end of the sales period, at 17:00 GMT Friday 23 September 2005. In order for the endorsee to acquire the shares on the basis of the assignment form, the endorser or the endorsee must subscribe for shares under the identity number of the endorser (shareholder) on the aforementioned form on Kaupthing Bank's website.

Participation in the pre-emptive share offering is available to all individuals and legal entities holding shares in Ossur hf. at the end of 7 September 2005, provided that they were listed in the register of shareholders when it was updated with reference to the end of that day. Participation is also available to all individuals and all legal entities holding an assignment of pre-emptive rights to the new shares if the party's participation is not prohibited by law.

Offered amount and price

New shares with a sales value of ISK 5,134,726,890 are offered at a fixed price of ISK 81 per share. The number of shares offered is 63,391,690 with a nominal value of ISK 1 per share.

When paying for the new shares on the final due date at the latest, the Investor will not be required to pay any additional fees to the Issuer or the Manager.

Subscription period 19-23 September 2005

Subscriptions will be accepted from 10:00 GMT on Monday 19 September 2005 until 17:00 GMT on Friday 23 September 2005.

Registering subscriptions

Subscription for shares in the pre-emptive share offering can only be made electronically via a special subscription form on the website of the Manager, www.kbbanki.is for an Icelandic version and www.kaupthing.net for an English version.

Before subscribing, an investor must identify himself with login details on the subscription form as follows:

(A) by username and password of KB Net Bank (available to any party with access to Kaupthing Bank hf.'s internet banking services) or

(B) by ID-No. and a special password allocated to each shareholder that is sent by postal mail to the address in the share registry.

At the end of the subscription process, verification will be provided electronically and this proves that a shareholder's subscription in the offering is valid. This electronic verification is required for valid proof of the subscription and can be printed out. From the time of subscription until 31 October 2005 electronic verification can also be obtained from the website, using the same login details as when subscribing, or from KB Net Bank.

Kaupthing Bank hf.'s Consultants will provide information on the terms of the share offering as well as assistance regarding the offering by telephone on +354 444 7000, and e-mail "offering.OSSR@kaupthing.net" or "utbod.OSSR@kbbanki.is" between 9:00 GMT and 20:00 GMT during the subscription period.

From 24 September until 31 October, notification of allocation and payment instructions can be obtained from the website, using the same login details as when subscribing, or from KB Net Bank.

Subscription in the share offering is binding on the subscriber. Subscriptions through the website constitute a legally binding agreement pursuant to which those subscribing are bound to purchase the shares subscribed for and/or allocated to.

When subscribing the investor declares that he has familiarized himself with, understood and agreed to the terms and other aspects of this Prospectus.

Those Kaupthing Bank hf. employees, including their families (dependent children and spouses, i.e. married partner, co-habitant or registered partner) to whom Kaupthing Bank hf.'s rules on proprietary securities trading, employee securities trading and separation of operating units etc. (pursuant to article 15 of Act no. 33/2003) apply, are only allowed to participate in the share offering until 16:00 GMT on 19 September 2005, regardless of whether they subscribe for shares subject to their pre-emptive rights or act as an assigner or an assignee.

Payment

From 24 September 2005, notification of allocation and payment instructions can be obtained from the website, using the same login details as when subscribing, or from KB Net Bank.

Payment notes for allocated number of shares, payable via Icelandic banks and savings banks and at Icelandic net banks, or payment instructions for swift payments, will also be sent to investors at the end of the subscription period.

Due date of payment is Thursday 29 September 2005 and payment shall be made no later than on final due date, Tuesday 4 October 2005, according to the payment note or payment instructions for swift payments.

If payment is not received on time or in the correct manner the debt may be collected in accordance with the law. The Company's Board of Directors reserves the right to collect penalty interest on subscriptions which have not been paid on the final due date. Instead of resorting to collection measures, the Board unilaterally reserves the right to invalidate the unpaid subscription without warning or notice or allocate it to a third party.

Issuing and delivering shares

Any shares subscribed for and allocated through the pre-emptive share offering will be issued electronically at the ISD no later than one day after one quarter of the share offering's total sales value has been paid for. The issue date should be no later than 5 October 2005, since subscriptions shall be paid for no later than 4 October 2005. From the issue date, the new shares will be delivered to each investor one trading day after the relevant investor's shares have been paid for in the correct manner.

Information

A copy of this Prospectus can be obtained as a pdf-version from the following websites:
www.kbbanki.is or www.kaupthing.net and www.ossur.com

A hard copy of this Prospectus along with the material cited in it may be obtained at the following locations:

Kaupthing Bank hf. - Customer Service Centre
Address: Austurstræti 5, IS-101 Reykjavík, Iceland
Tel. +354 444 7000
Kaupthing Bank hf. - Investment Banking
Address: Borgartun 19, IS-105 Reykjavík, Iceland
Tel. +354 444 6000
Ossur hf.
Address: Grjothals 5, 110 Reykjavík, Iceland
Tel. +354 515 1300

III. SHARE CAPITAL AND OWNERSHIP

TOTAL SHARE CAPITAL AND TREASURY SHARES

Ossur hf.'s total issued share capital amounts to 318,441,000 shares. Each share has a nominal value of ISK 1. All issued share capital has been paid for. No outstanding loans include terms that affect the Company's share capital. According to the Company's Articles of Association, the Company shall not grant loans against shares in the Company.

Ossur hf. holds 1,434,242 treasury shares as of 7 September 2005, or 0.5% of total issued shares. The Annual General Meeting held on 25 February 2005 authorized the Company's Board to buy treasury shares up to a maximum of 10% of the total issued share capital at a price which is no higher than 10% over and no lower than 10% under the posted average price of shares in the Company for the two weeks immediately preceding the acquisition. The authorization is valid for 18 months. By law, treasury shares do not have voting rights.

Ossur hf.'s active share capital (i.e. shares that have voting rights) amounts to 317,006,758 shares, which is the number of total issued shares excluding the treasury shares.

This Prospectus concerns the offering and listing on the ICEX Main List of new share capital in Ossur hf. of up to 67,491,690 new shares which corresponds to up to a 21.2% increase in total issued share capital. After this increase, the total issued share capital will amount to up to 385,932,690 shares.

Authorisation for further increase of share capital

The Board of Directors of Ossur hf. is authorised to increase the share capital of the Company by up to 9,608,310 shares in addition to the new shares in the share offering described in this Prospectus. The authorisation is valid until 19 August 2010. New shares subject to this authorisation are to be sold with shareholders' pre-emptive rights pursuant to the Company's Articles of Association and Chapter V of the Companies Act No. 2/1995. The Board of Directors will decide the offering price of these shares and rules of the sale at each time, deadlines for subscription and deadlines for payment.

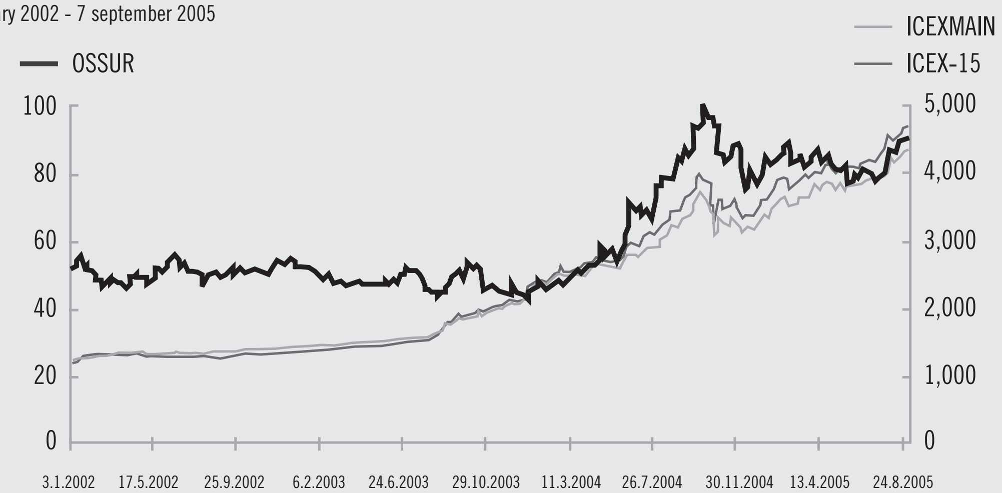
Development of share capital

Ossur hf.'s total issued share capital has remained the same since the year 2000, except from a reduction in February 2004 when the Annual General Meeting resolved to reduce the share capital by 10,000,000 shares by reducing treasury shares.

Share performance

On the 7 September 2005 the market capitalization of Ossur hf. was ISK 28.7 billion, according to end of day price which amounted to ISK 90.0 per share. The year to date trading of

Share price on ICEX
1 January 2002 - 7 september 2005



shares amounted to 149.5 million shares which corresponds to 47% of the total number of shares in the company and total trading value amounts to ISK 12.4 billion. The year to date average spread between high and low price has been 0.95%. For the whole year 2004 total trading of shares amounted to ISK 24 billion in 4,705 trades which corresponds to turnover of 118%. The average spread of low and high offer over the year was 0.75%. The spread is a good indicator of the liquidity of the stock.

The graph on previous page sets forth the development of Ossur hf.'s end of day share price on ICEX from 2002 until 7 September 2005. The graph also shows the ICEX-15 index and ICEXMAIN which is the index for all shares on ICEX Main List.

Market making

The existing market-making agreement for the trading of Ossur's shares took effect on 10 February 2005, after the renewal of an agreement between Ossur hf. and Kaupthing Bank hf. The purpose of the market-making agreement is to promote trading in the Company's shares on ICEX.

Under the agreement, Kaupthing Bank hf. undertakes to submit a daily buy for a minimum of 100,000 shares and a sell offer for a minimum of 100,000 shares in Ossur hf. on ICEX at a price to be determined by Kaupthing Bank hf. at each time. The maximum spread of buy and sell offers is not to exceed 1.5% and deviations from the last trading price must not exceed 3%. The maximum daily amount of total trading which Kaupthing Bank undertakes to hold or sell is ISK 100,000,000 market value.

OWNERSHIP

The total number of shareholders in Ossur hf. as of 7 September 2005 was 3,108 in the end of the day. The ten largest shareholders owned the equivalent of 80.2% of shares in the Company, a total of 255,276,346 shares. The twenty largest owned a total of 274,162,564 shares, or 86.1%. The Company is not aware of any shareholder agreements which have been made concerning the exercising of voting rights.

The largest shareholders

William Demant Invest A/S is the largest shareholder in Ossur, with a 24.9% holding. The company is fully owned by William Demants and Hustru Ida Emilies Fond (the Oticon Foundation) which, among other investments, is also a majority shareholder in the hearing aid manufacturer William Demant Holding A/S which is listed on the OMX Copenhagen Stock Exchange. Mr. Niels Jacobsen, the President and CEO of William Demant Holding A/S, is a Board member of Ossur.

AB Industrivärden is the second largest shareholder in Ossur with a 23.3% holding. Industrivärden is one of Scandinavia's leading holding companies and seeks to invest in businesses with strong potential and growth value though active ownership. Other investments of Industrivärden include Svenska Handelsbanken AB, Ericsson AB, AB Volvo and Skanska AB. Mr. Bengt Kjell, who is Executive Vice President and head of new investments at AB Industrivärden, is a Board member of Ossur. AB Industrivärden's shares are registered on a nominee account at Arion-Custodian.

Eyrir Fjárfestingarfélag ehf. (Eyrir Invest) is the third largest shareholder in Ossur, with a 10.5% holding. Eyrir is an active holder in companies that are potential industry leaders in various market segments. The principal shareholders of Eyrir Invest are Mr. Arni Oddur Thordarson the CEO of Eyrir Invest and Mr. Thordur Magnusson the chairman of the Board of Eyrir Invest. Mr. Thordur Magnusson is a Board member of Ossur.

Mallard Holding S.A. is the fourth largest shareholder in Ossur with a 9.3% holding. Mallard Holding is owned by majority by Mr. Ossur Kristinsson, the founder of Ossur hf., who is a member of the Board of Ossur.

Arion – Custodian as one party is the sixth largest shareholder in Ossur, with a 2.6% holding. Arion Custody Services is a custody service company fully owned by Kaupthing

SHAREHOLDERS 7 SEPTEMBER 2005	DESCRIPTION	SHARES	%
William Demant Invest A/S	Investment fund	79,432,101	24.9%
AB Industrivärden (shares on custody acc.)	Investment fund	74,344,119	23.3%
Eyrir fjárfestingafélag ehf.	Investment fund	33,539,167	10.5%
Mallard Holding S.A.	Holding company	29,531,846	9.3%
Lífeyrissjóður verslunarmanna	Pension fund	11,013,305	3.5%
Arion safnreikningur	Custodian	8,212,696	2.6%
Vik Investment Holding S.a.r.L.	Holding company	7,872,423	2.5%
Fidelity Funds-Nordic Fund	Investment fund	4,145,144	1.3%
Sameinaði lífeyrissjóðurinn	Pension fund	3,873,812	1.2%
Gildi - lífeyrissjóður	Pension fund	3,311,733	1.0%
Ten largest total		**255,276,346**	**80.2%**
Landsbanki Íslands hf.	Bank	3,201,662	1.0%
Mycenaean Holding S.a.r.L.	Holding company	2,966,956	0.9%
Lífeyrissjóðurinn Lífiðn	Pension fund	2,237,684	0.7%
Ker Holding S.a.r.L.	Holding company	1,756,287	0.6%
Lífeyrissjóður Vestfirðinga	Pension fund	1,746,470	0.5%
Lífeyrissjóður Austurlands	Pension fund	1,593,903	0.5%
VVÍB hf., sjóður 6	Investment fund	1,569,300	0.5%
Fidelity Inv.Trust:Fidel.Nordic Fund	Investment fund	1,319,142	0.4%
Þórunn Rafnar	Individual	1,266,118	0.4%
1907 Holding S.a.r.L.	Holding company	1,228,696	0.4%
Twenty largest total		**274,162,564**	**86.1%**
Other 3088 shareholders		42,844,194	13.5%
Total active shares		**317,006,758**	**99.5%**
Ossur hf.	Treasury shares	1,434,242	0.5%
Total issued shares		**318,441,000**	**100.0%**

Bank hf. (the Manager). Ossur hf. has no information regarding the ownership of these shares that belong to the clients of Arion Custody Services (Arion verðbréfavarsla hf.).

Vik Investment Holding S.a.r.L is the seventh largest shareholder in Ossur hf. with a 2.5% holding. The company is owned by the President & CEO of Ossur, Mr. Jon Sigurdsson.

Fidelity Funds – Nordic Fund is the eighth largest shareholder in Ossur with a 1.3% holding. The fund aims to provide long-term capital growth from investments in Scandinavia. The fund has no intention of holding more than 10% in one company. Fidelity has another mutual fund which holds 0.4% of Ossur's shares. The combined ownership of funds that Fidelity manages is therefore 1.7%.

Mycenaean Holding S.a.r.L. is the 12th largest shareholder in Ossur with 0.9% of Ossur's share capital. The owner of Mycenaean is Mr. Hilmar Br. Janusson who is Vice President of Research and Development at Ossur.

Ker Holding S.a.r.L. is the 14th largest shareholder in Ossur with a 0.6% holding. Ker Holding is owned by Mr. Arni Alvar Arason, Vice President of Sales and Marketing at Ossur.

1907 Holding S.a.r.L. is the 20th largest shareholder. The company owns 0.4% of the share capital. The owner of 1907 Holding is Mr. Petur Gudmundsson, the Chairman of Ossur's Board of Directors.

ISSUE AND SHARE RIGHTS

Issue and share characteristics

Ossur hf.'s share capital consists of shares of ISK 1 and multiples thereof. Ossur hf.'s shares are all issued electronically at the ISD and are registered there under the name of the relevant shareholder. The shares' symbol in the ISD system is OSSR. The ISIN number of the shares is IS0000000040.

Ossur hf.'s shares have been listed on the ICEX Main List since 11 October 1999, and are included in the ICEX-15 index. The Company's Board of Directors has not made any resolution on seeking a listing for Ossur hf. on other stock exchanges. The shares' ticker symbol in the trading system of ICEX is OSSR. One trading lot amounts to 1,000 shares. A trading lot is the minimum number of shares required for price formation on ICEX.

Rights

All the shares of Ossur hf. are of one class and carry equal rights. The Company's shares carry no special rights and no restrictions are placed on them. Owners of the Company's share capital have the right to vote at shareholders' meetings, the right to receive dividends when declared, enjoy pre-emptive rights to new shares, unless waived, and the right to a portion of the Company's assets upon liquidation, all according to share ownership, statutes and the Company's Articles of Association in effect at any given time.

Dividend policy

Ossur has not paid any dividends to its shareholders, nor does the Company intend to do so in the near future. Loan agreements with debt providers furthermore limit the extent of dividend payments.

Right to dividends

A resolution on the distribution of dividends shall be made at an Annual General Meeting which shall be held before the end of June each year. The dividend payment is presumed due at the Annual General Meeting unless another due date is specifically determined at the meeting. Any dividends declared shall be paid to parties who are shareholders in the shareholder registry at the Annual General Meeting (or another due date, cf. above) which decides on the payment of dividends for the previous accounting year. This rule is based on Art. 80 of Act no. 50/2000 on the Purchase of Liquid Assets, where it states that the purchase of shares includes dividends not due prior to the purchase.

According to Article 2.07 in the Company's Articles of Association, each shareholder shall inform the Company of his/her address. In the event that shareholders neglect to provide information of such address, they shall neither have any claim to receive any notice that the Board of Directors may decide to send to shareholders, unless the Board of Directors has knowledge of their address, nor any claim to remittance of dividend payments. However, shareholders may collect their dividends at the Company office within four years of payment being due. This provision on the lapse of the right to a dividend that has not been collected is unanimous with provisions stating that these rights lapse after four years according to Act no. 14/1905 on the Lapse of Debts and Other Claim Rights.

Right of ownership and transfer

There are no limitations on the authorization to transfer Ossur hf.'s shares, and shareholders may pledge their shares unless prohibited from doing so by law. Nevertheless, it should be noted that individual shareholders may have agreed that their shares are subject to certain restrictions. A party acquiring a share in the Company cannot exercise his right as a shareholder unless his name has been registered in the share registry or he has announced and proven his ownership of the share. Only general legislative rules apply to the transfer of shares in Ossur hf. The electronic registration of securities is governed by Act no. 131/1997 and Regulation no. 397/2000 which is based on that Act.

A printout from the ISD on the ownership of shares in Ossur hf. is considered a valid registration of the shares. The Company shall consider the share registry as full proof of ownership to shares and attached rights. Dividends as well as all announcements shall at any given time be sent to the party registered in the Company's share registry as owner of the shares in question. The Company is in no way liable if payments or announcements do not reach their recipients because a change of address has not been notified.

Rights to electronic shares must be registered at the ISD if they are to enjoy legal protection against legal executions and disposal by means of an agreement. It is forbidden to issue share certificates for registered rights according to an electronic share or endorse them, and such transactions are voided. Registration of the ownership of an electronic share at the ISD, subsequent to a Securities Depository final entry, formally gives a registered owner legal authorization to the rights for which he is registered. Priority of incompatible rights is determined by the chronological order of requests from the Banks' Data Central reaching the Securities Depository.

Tax issues

The shares of Ossur hf. are subject to taxation according to law in effect at any given time. Investors are advised to seek external tax advice on the tax impact of any investment in the shares.

The Issuer's shares are subject to stamp duty in Iceland which the Issuer shall pay within a year from the issue of the shares. Stamp duty has been paid on all shares that have already been issued.

The Company is obliged to retain PAYE taxes on dividend payments, according to Art. 3, Para. 2 of Act no. 94/1996 on Capital Income Tax. For Icelandic parties other than those exempt from PAYE tax on capital earnings, the PAYE tax is a final taxation. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it must be established whether there is any taxation payable in addition to that in Iceland.

Profit from the sale of shares in Ossur hf. is taxable in Iceland. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it should be determined which state has the right of taxation.

Shares in Ossur hf. fulfil the conditions of item 1 of section B of Article 30 of Act. no. 90/2003, with subsequent amendments, on Income Tax and Net Wealth Tax. It discusses the deduction of increased investments in shares before the end of 2002 from the income tax base.

Nominee accounts

Provisions on nominee accounts are contained in the Act on Securities Transactions, no. 33/2003, the Act on Electronic Registration of Title to Securities, no. 131/1997 and the Act no. 2/1995 on Public Limited Companies.

In Article 31, Act no. 2/1995 it is stated that those who own shares cannot exercise their rights unless the ownership has been registered in the share register. This does not include the right to dividends or other payments and the right to new shares in the case of a new share issue. According to Article 31 a shareholder does not have voting rights at a shareholders' meeting unless his name is registered in the share register. The same applies to financial institutions which are registered as nominees as the shareholder does not have the right to issue a proxy to exercise the voting right. Shares held by a nominee do therefore not provide a voting right at shareholders' meetings.

Having shares registered by a nominee does not exempt the respective shareholder from being subject to the relevant rules relating to the acquisition and disposal of major holdings in the Act on Securities Transactions. Customers' ownership in nominee accounts shall be included when assessing the need for disclosing such transactions.

Dissolution of the Company

According to the Company's Articles of Association the dissolution of the Company shall be governed by the provisions of Chapter XIII of Act no. 2/1995 on Limited Liability Companies. The same shall apply to any type of merger or joining of the Company with other companies, and to the sale of all of its assets. The meeting that has made a valid decision to dissolve or liquidate the Company shall also decide on the disposal of assets and the payments of debts, cf. Chapter XIII of Act No. 2/1995 on Public Limited Companies.

IV. HISTORICAL OVERVIEW

Ossur hf. was established in Reykjavik on 30 January 1971. The Company was founded by prosthetist Ossur Kristinsson and several disability organizations in Iceland. Mr. Kristinsson and his family owned the Company from l984 until 1999, when Ossur hf.'s shares were listed on ICEX. From the Company's founding until 2003, Ossur's primary operations were design, manufacturing, sale and distribution of prosthetic products. In 2003 the company entered the orthopaedic market.

Between 1971 and 1986 Ossur only served the domestic market as a prosthetic workshop. From 1986 the company's growth rate increased substantially as Ossur began exporting its products. In 1986 Ossur obtained its first patent. Ever since Ossur started manufacturing prosthetic devices, the Company has managed to put forth revolutionary products and changed processes for O&P workshops. These include, most notably, the ICEROSS® silicon socket (Icelandic Roll on Silicone Socket), that came on the market in 1986 and the ICEX® in 1996, a production technique for silicon sockets. The Company's achievements have received well deserved attention world wide.

In 1999 Ossur hf's shares were listed on the Iceland Stock Exchange. Following the floating of the Company, Ossur began to expand internationally. Ossur's first investment abroad was in 2000, with the acquisition of Flex-Foot Inc. a well-known US manufacturer of prosthetic feet. This was a landmark transaction for Ossur as Flex-Foot brought strong brand recognition and product diversity to the Company, as well as access to direct sales network in USA. Ossur was the first company to successfully acquire another major player within the prosthetic field. Flex-Foot was established in 1984 by inventor, prosthetist and amputee, Van Phillips. At the time of the acquisition Ossur had a high tech upper part of the artificial foot through its silicon socket while Flex-Foot had state of the art lower part of the artificial foot. The products of the two companies thus complemented each others. In November 2000 Ossur acquired the US manufacturer of premium prosthetic knees, Century XXII Innovations, thus further establishing the Company's operations in the North American market and expanding its product range.

In 2000 Ossur strengthened its position in the Nordic region through the acquisition of leading Scandinavian distribution companies Karlsson & Bergström and Pi Medical. These companies were previously distributors of Flex-Foot and Ossur products respectively. Pi Medical also had expertise in manufacturing and product development. The acquisitions made in the year 2000 strengthened Ossur's core business, which at the time was focused on the manufacturing and distribution of prosthetics and related products.

With the acquisitions made by Ossur, the Company had taken the first step towards increased consolidation within the prosthetic industry. Following Ossur's acquisitions, several other consolidations took place among some of the Company's competitors. After the wave of industry consolidation, Ossur emerged as the second largest producer of prosthetic products.

Acquisitions made by Ossur in 2000 were to a large extent a result of Ossur's analysis and understanding of future industry trends. Customers demand for total solutions and a high level of service increased over the years, and such requirements are more easily met with increased scale of operations and a broader product range.

The acquisitive expansion in 2000 was successfully integrated into a now more geographically diverse consolidation in 2001. This integration was achieved without any setbacks in profitability.

In line with strategic plans, Ossur entered the orthopaedics market in 2003, introducing a new range of products. A further milestone was reached in October 2003 when Ossur acquired Generation II, a well known brand in the orthopaedics industry, thereby gaining a foothold in the North American orthopaedics market.

In a move to strengthen its position within the orthopaedics market, Ossur acquired Royce Medical in July 2005. The acquisition vastly improves Ossur's competitive position and brings the Company closer to becoming a leader within the orthopaedics and prosthetics industry.

V. THE MARKET

Ossur is a medical device company that operates within the healthcare market, namely the orthopaedics and prosthetic (O&P) industry.

ORTHOPAEDICS

The orthopaedics industry offers solutions ranging from reconstructive implants (operative) and fracture fixators to soft tissue repair products. Other solutions are reconstructive and rehabilitative braces and supports for the spine, upper and lower extremities. The orthopaedics industry furthermore offers solutions that are used to remedy congenital deformities, osteoarthritis and damaged ligaments, often caused by illnesses connected with old age or lifestyle, as well as sports-related injuries.

PROSTHETICS

The prosthetic industry generally refers to the branch of medicine or surgery that deals with the production and application of artificial body parts. Thus, the prosthetic segment focuses on servicing individuals who have experienced some form of amputation.

INDUSTRY SPECIFICS

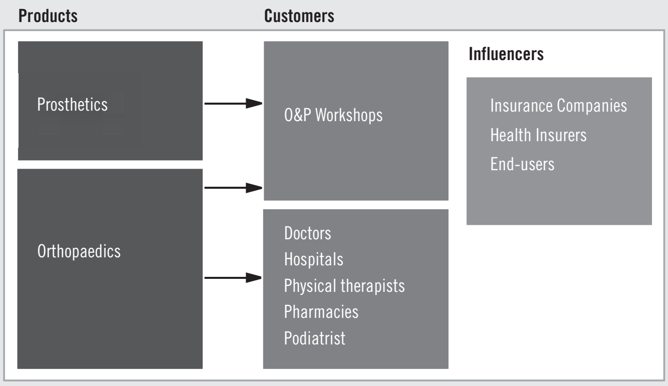
The procurement process is generally quite complicated in the medical industry. The selection of medical devices depends on the healthcare system in each respective country. Normally it is not the end-users themselves who make the final decisions on what to buy, but certified specialists. A further differentiating factor of the medical industry is that it is usually not the end-user who pays for the product, but a third party. This third party is normally an insurance entity or a government healthcare program.

Medical devices in the prosthetic field are as a rule prescribed by specialist healthcare providers. In recent years the industry has seen greater independence and demands from users themselves. Users today are better informed and are increasingly looking for independence, comfort and functionality in the products they are offered. Due to the fact that prosthetic sales are almost entirely prescription sales, Ossur's customers are mainly service centres or workshops, which service patients needing artificial limbs.

Orthopaedics products are both sold by prescription and non-prescription. All operative orthopaedics products are needless to say prescription products, as are more complex supportive solutions. A wide array of non-operative products consists, however, of non-prescription items, which are therefore in many cases distributed and sold directly through pharmacies. Ossur's and the newly acquired Royce Medical's product offering only covers the non-invasive segment of the orthopaedics market.

Given the nature of orthopaedics and prosthetics products, the main customer groups are O&P workshops, doctors, physical therapists, hospitals, podiatrists and pharmacies. The increasing complexity of orthopaedics and prosthetics products and the stringent requirements of the regulatory environment, together with a more sophisticated orthopaedics and prosthetics industry in general, make it imperative for the manufacturer and developer of prosthetic products to communicate directly with these practitioners.

Sales Channels



INDUSTRY DRIVERS

There are several industry dynamics that drive the demand for orthopaedics and prosthetics products.

Regulatory environment

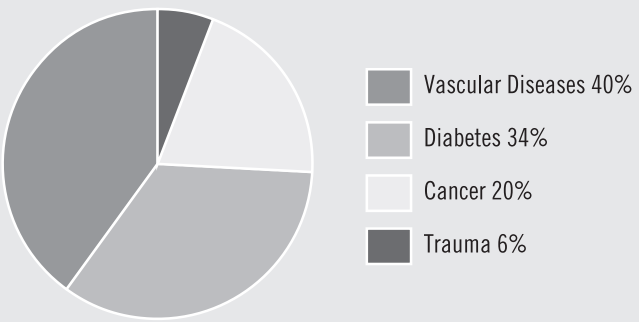
Healthcare markets all over the world are characterized by public regulations, complex procurement processes and limited sensitivity to economic fluctuations. Procurement processes in the health industry are complex and vary from country to country, depending on the structure of the healthcare system. Healthcare providers are furthermore often constrained by budgets, demanding cost-effective solutions without compromising quality. This has led to substantial investments in systems that demonstrate and provide a cost benefit analysis for potential buyers. Two vital requirements for any serious market participant within the orthopaedics and prosthetics field are the ability to be constantly alert to a changing regulatory environment, and the ability to adapt the product offerings to the prevailing regulatory system.

Demographics

Various social changes are now occurring that have an influence on the demand for orthopaedics and prosthetics products. These changes include, among other things, a different age composition in Western societies, increased social demands, rapid technological development, and an increase in diabetes and other vascular diseases. Each of these factors plays a part in the increase in demand for O&P products, as well as the increasing demand for the greater mobility of the individual.

The need for amputation is primarily attributable to vascular diseases, such as arteriosclerosis, and ailments as a result of diabetes. Other causes of amputation are cancer and trauma (the ratio of trauma incidences being considerably higher in developing countries). Vascular diseases and diabetes, the two main causes for amputation, account for about 40% and 34% respectively of all amputation. Over 80% of all amputees are lower-limb amputees, and the majority of people losing limbs are aged 51 and above.

Reasons for Amputations

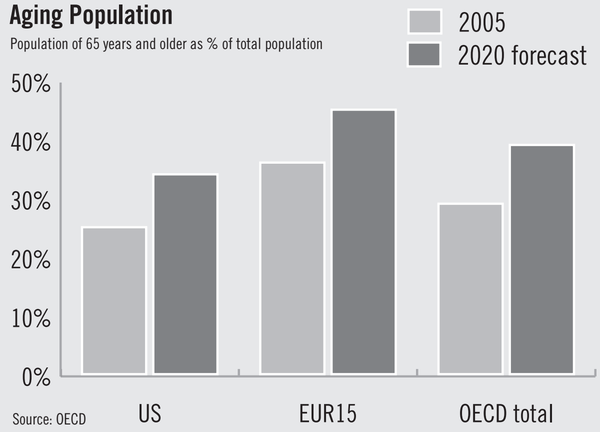


US health authorities have noticed a rapid rise in the incidence of diabetes over the years. Newly diagnosed incidents of diabetes in the US increased by 41% between 1997 and 2003. The increase can partly be explained by changes in diagnostics, but the American Diabetes Association says that the real change is due to an increase in obesity in the US. In 2003 nine out of ten people diagnosed with diabetes were overweight. Older people and people that are overweight are more prone to diabetes than other groups.

The percentage of the population that is 65 years or older is rising in all OECD countries, and is expected to continue doing so. In the United States alone the ratio of people 65 or older is expected to rise from 25% in 2005 to 34% in 2020. In the EU15 the increase for the same period is from 36% to 45%, and an increase from 29% to 39% for the OECD countries in total. These

Aging Population

Population of 65 years and older as % of total population



Source: OECD

increases in the proportion of the population aged 65 and above will underpin market growth in the O&P industry, as an aging society brings an increase in the frequency of vascular diseases and diabetes, which are the main causes of amputation. An aging population furthermore brings an increasing volume of fractures and joint instability, driving the demand for different forms of orthopaedics solutions.

Lifestyle issues such as increased participation of the general public in sports, driven by more health-conscious population and awareness of the potential advantages of regular exercise, are a further industry driver. As the market for sports grows, the demand for orthopaedic products should continue to grow due to the increased number of sports related injuries and increased demand for prevention products.

New Technologies

New technologies continually drive the industry towards the utilization of new materials that are more light weight, more durable and easier to work with. Technological advances help stimulate market growth as new technology opens up new customer segments. Such advances furthermore contribute to increased effectiveness in production processes.

COMPETITION

The orthopaedics and prosthetics industry is highly competitive and characterized by continuous innovation and rapid technical development. Competition is primarily focused on aspects such as the range of service, education of professionals, product design and effectiveness, accessibility, and feasibility of the technology used.

As there are no third party reports on the prosthetic market segment to rely on, Ossur estimates that the total size of the market for prosthetic products is about $500 million. Traditionally the industry has been very fragmented, where many small market players have focused on small customer segments. However, in recent years the industry has experienced rapid consolidation. This wave of consolidation was first and foremost sparked by increased demand for full service providers as customers prefer to get total solutions at one place. Ossur initiated the consolidation process within the sector with the acquisitions in 2000, thus becoming the second largest prosthetics company in the world after the German company Otto Bock. Competitors have reacted to Ossur’s initiative, resulting in further consolidation of the industry.

The top tier market players within the orthopaedics industry in US are dj Orthopedics, DeRoyal, Royce Medical/Ossur/GII, Aircast and Breg/Orthofix. These are all companies that have a market share of 5% and above, broad product lines and wide distribution channels. The mid-level manufacturers within the orthopaedics industry, or companies with less than a 5% market share and focused product lines include; Active Ankle, Townsend, Innovation Sports and Bledsoe. Several small niche players also operate within the industry. These niche players focus on small customer segments and have very limited distribution.

Based on a Frost & Sullivan report from 2003, Ossur estimates the market for non-invasive orthopaedics products is estimated to be about $1.5 billion. In Europe the market is rather fragmented as numerous small market players focus on small customer niche markets. A few well established European market players do, however, control the majority of the overall market. These are primarily German companies Otto Bock, Bauerfeind and Medi, and the French company Thusane. These companies all have a long history in their respective markets, which makes it difficult for foreign competitors to get a foothold within their territory. The US based dj Orthopedics is the only non-European company to have a noticeable presence in the European market.

VI. ACQUISITIONS AND DIVESTMENTS

ACQUISITION OF ROYCE MEDICAL

On 28 July 2005, Ossur announced that it had signed an agreement on the acquisition of all outstanding shares of Royce Medical Holdings Inc. for an enterprise value of $216 million. The seller of Royce Medical is Cortec Group Fund III LP., a private equity fund that acquired Royce Medical in 2003 in a leveraged recapitalization. The Ossur Consolidation was refinanced in connection with the acquisition of Royce Medical. A full overview of the structure of the refinancing is provided in chapter IX, Financial Highlights.

Motivation for the acquisition

In recent years Ossur has been a key player in the estimated $500 million global prosthetics market. Ossur's aim is to become a market leader in the overall orthopaedics and prosthetics industry. In early 2003 the Company entered the orthopaedics market by initiating its own production of orthopaedics solutions. This move enlarged the market in which Ossur operates in by an estimated $1,500 million. To accelerate the company's entry into orthopaedics, Ossur acquired Generation II Group Inc. in October 2003. The acquisition of Royce Medical is yet another milestone in Ossur's development to be a leader in the orthopaedics and prosthetics industry. The acquisition is in line with Ossur's overall acquisition strategy and ambitions of becoming a top player in the orthopaedics and prosthetics industry.

Key benefits of the acquisition include:

- Acceleration of Ossur's progress towards becoming a top player within the orthopaedics and prosthetics industry
- Opportunities for sales of Ossur products through Royce Medical's distribution channels in North America
- Opportunities for sales of Royce Medical products through Ossur's distribution network in Europe
- Ossur can leverage product know-how into the orthopaedics business
- Opportunities for Ossur to utilize some of Royce Medical's low cost production capabilities and knowledge with regard to production outsourcing

Historical overview of Royce Medical

Royce Medical was established in 1968 by Dr. Daniel Haines to provide post-operative solutions and cast shoes. These remained the most vital product lines throughout the 1970s. In 1981 Jeff Haines took operational control of the company and adopted telemarketing as the primary sales and marketing strategy, which resulted in substantial increases in sales. Telesales are still today the main distribution channel for the company. In 1983 Royce Medical added a line of orthopaedic braces and supports to its product offering, thereby initiating a transformation into a focused manufacturer and distributor of orthopaedic products.

The next major milestone took place in 1984 when Royce Medical and Carapace Inc (since purchased by DeRoyal Industries Inc.), combined efforts to launch the first "colored" fibreglass casting tape. The launch of Pink and Blue Cast Tape to the American orthopaedic marketplace was a major success in terms of both product development and experience. Furthermore, this first step into fracture management led Royce into its next major evolution, the establishment of in-house R&D in 1986.

Investing in the development and design of new and innovative products for treatment of orthopaedic injuries and conditions, Royce quickly began to make technological contributions to the orthopaedic marketplace. Royce Medical's first patent for incorporating gel for hot and cold therapy into bracing products issued in 1988. Royce also successfully obtained patents related to proprietary manufacturing technology. Royce Medical currently holds 57 US patents, several international patents, and an additional fourteen patents are pending.

The 1990s was a growth period for the company, as it brought various new products to the market. In 1991, Royce Medical brought the Equalizer® short leg walker to the market as an alternative to casting. The short leg walker is an alternative to short leg casting, and as Royce's top product line, the Equalizer® family of products has been one of the main contributing products for Royce Medical. Royce added the Equalizer Air Walker® in 1993 as a reaction to growth in the diabetes market.

In 1994 the company expanded its product offering in the braces and supports market, adding patented back and knee braces products, many incorporating Air and Gel for hot and cold therapy. In 1996, the Form Fit® wrist splint was introduced. The development of the Form Fit technology marked yet another R&D milestone, as the utilization of a patented three-dimensional form moulding technology made the Form Fit® wrist splint better fitting, as well as less expensive to manufacture. Royce Medical has since incorporated the Form Fit® Technology into knee supports, ankle braces, wrist/thumb immobilizers, and back supports.

In 2000 Royce Medical entered into the fibreglass casting and splinting market with its Techform® line of materials. Royce makes this product line in Camarillo and has developed two varieties of cast tape, upper extremity functional splints, rolled synthetic splinting material, and Pre-Cut Splints.

In 2002, Royce Medical launched a new line of products and a patented manufacturing technology called Exoform®. The Exoform® products utilize Royce Medical's proprietary manufacturing technique that incorporates rigid and soft material together into a single brace. Royce Medical states that the Exoform® products represent the most durable and stable off-the-shelf braces manufactured anywhere. Royce Medical has since expanded the Exoform® line into ankle, wrist, and knee products.

In 2003, an era of family control ended as Royce Medical was acquired by the financial sponsor Cortec Group in a leveraged recapitalization.

Recently Royce Medical acquired two manufacturers and distributors of cervical collars. In 2004 the company acquired The Jerome Group Inc., and in 2005 the company acquired Philadelphia Collar Co. With the acquisition of the two companies Royce Medical gained a substantial share and is the dominant leader with almost 40% of sales in the cervical collar market. Cervical collars are a strong addition to Royce Medical's existing business, as they complement the Company's existing product offerings and provide Royce with a direct line into the hospital marketplace.

Key products and market segments

Royce Medical's primary markets are orthopaedic, DME (durable medical equipment stores), O&P workshops, podiatry clinics and hospitals. The company also markets its products to surgery centres, urgent care, GP (general practice) etc. Certain product lines are sold directly to the end-user through pharmacies, the internet and retail stores.

The orthopaedic private practice and hospital clinic marketplace represent the top priority for Royce Medical. The orthopaedic clinics are independently owned businesses and often managed by orthopaedic surgeons. There are approximately 9,300 clinics in the US market ranging in size from just one surgeon to more than 100. With the orthopaedic surgeon as the primary decision maker in this segment, and the primary influencer in the hospital, DME, and O&P markets, Royce is excellently positioned producing about 1/3 of the business driven through direct sales through this segment. Royce has recently launched a new internet based billing program called DME Pro, which assists providers in capturing revenue on the custom and off-the-shelf bracing they currently provide patients. The Company believes this transactional program represents the future driver in the private clinic marketplace.

The orthopaedics and prosthetics market is another key category for Royce Medical accounting for about 10% of Royce's direct business, and is growing very rapidly primarily through Royce Medical's key relationships with Hanger and SPS. The O&P's provide off-the-shelf and custom bracing and extra-depth shoes for patients with a prescription that often are coming from an orthopaedic surgeon visit. In addition, many O&P's provide bracing directly to hospital in-patients. The O&P's also provide prosthetic services and products sold by Ossur. There are about 3,000 O&P workshops in the US market.

The podiatry market is also a fast growing market for Royce Medical, accounting for nearly 14% of Royce Medical's direct sales. Podiatrists are licensed in almost all US states to focus on both foot and ankle care, and a major part of most practices includes diabetic foot related wound management. There are over 14,000 podiatrists in the US, most of these are 1 or 2 doctor practices. This setting represents the perfect sales and marketing advantage for Royce's low cost Telesales program. Royce has also expanded its product offering recently to add medicine surgical products which are used in fairly high volume in the Podiatry practices.

The DME market is Royce's fastest growing segment. Durable medical equipment stores and pharmacies sell orthopaedic supports and braces in addition to other medical supplies like oxygen, beds, wheelchairs, diabetic testers, medical apparel etc. DME stores rent or sell their products with or without a prescription to the public. There are approximately 20,000 DME stores and pharmacies in US selling orthopaedic supplies.

The hospital market represents a large segment, approximately 25% of the orthotics market. Many orthopaedic braces and casting materials are used within the hospital for both emergency care, physical therapy, and post-operative care. In most cases, the hospital business is won through national contract bids. Individual hospitals are providing orthopaedic braces at no cost to the patient. Because hospitals are not billing out for orthopaedic braces, Royce has developed a program called DME Source where Royce consigns the inventory to the hospital, and then Royce uses its billing system to invoice the insurance companies or Medicare. This means saving for hospitals and Royce Medical collects the billing revenue. This is a new program that is showing quite a lot of promise and represents a future trend within the hospital market.

Royce Medical offers a comprehensive line of products for the treatment for strains, sprains and fractures, as well as for diabetic wound care. Within the market for these products, the company's operations can be segregated into five sub-segments, namely: braces and supports, synthetic casting and splinting, bone growth stimulation, wound care and disposable medical products. Today the company markets about 2000 products. Branded product lines include Equalizer®, Techform®, Neo max ®, Exolite®, and PuraplyTM.

Braces and Supports

This product group is the highest contributing segment to overall sales. It contains various solutions for strains, sprains, soft tissue injury and various rehabilitation supports.

Walkers: Walkers have been some of the most important products for the company. They are alternatives to a short leg cast, primarily applied to treat soft tissue injuries, stable fractures and post-operational therapy. In the early 1990s the company introduced the Equalizer®, a short leg walker, as an alternative to lower leg casting, Royce Medical has subsequently introduced several varieties of Equalizer short leg walkers including versions with air and specialty walkers to care for the diabetic patient with foot ulcers.

Wrist braces: Royce Medical offers various forms of wrist support products. Among the product lines for wrist braces are the Form

Fit® and Exolite® solutions. By utilizing patented technology the Formfit braces offer a one-piece molded pad, which provides variations in padding thickness for high comfort, functionality and durability. The Exolite® provides treatment of carpal tunnel syndrome by using patented technology to increase comfort and functionality. Exoform® technology has been incorporated into two new wrist products: the Exolite® is designed primarily for Carpal Tunnel and the Exoform® Wrist is Royce Medical's newest product.

Thumb spicas: Thumb spicas provide immobilization and protection for thumb injuries and disorders. By taking advantage of the Formfit® technology, Royce Medical has put forth a product line for this particular segment with their Form Fit® thumb spicas.

Ankle Braces: Royce Medical entered the ankle brace market in 1987 with its Gel Ankle BraceTM, the first stirrup ankle or rigid brace to offer hot and cold therapy treatment modalities. Again, in 1998, the Formfit technology was utilized to introduce a Formfit® line of ankle stirrups. The company has also utilized its Exoform technology in manufacturing soft ankle braces. The Exoform technology forms a plastic exoskeleton directly onto soft breathable fabric, creating a network of support zones without restricting range of motion.

Night Splints: Night splints provide relief to patients who experience heel pain due to plantar fasciitis. The Formfit® technology provides the same attributes as it does for wrist braces, namely to provide variable padding thickness for comfort and fit.

Knee Supports: The neoprene knee sleeve provides warmth, compression and stability primarily for post-injury treatment and mild injury care. As with wrist braces and night splints, Royce Medical utilizes its Formfit® technology for the manufacturing of the knee sleeve. Three primary knee support product options are commonly available: a basic sleeve for less serious conditions, a support sleeve with stabilizers for more moderate injuries, and a hinged knee offering for maximum support.

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

Cervical Collars: The purpose of cervical collar orthoses is to alleviate instability of a compromised cervical spine, while being patient-friendly, lightweight and economical.

Synthetic casting and splinting

Casting tape: Royce Medical entered the casting market in 2000 with its Techform® casting tape. Techform is comprised of a patented high-action resin and fiberglass fabric that create a cast. For physicians and technicians, the cast is easy to work with, and for patients the main attributes are high strength and good durability.

Splinting: Royce Medical entered the splinting market in February 2003 with its Techform® Functional Splinting System. The Techform splint is an upper extremity splint that comes in a single, pre-cut and pre-shaped pattern that can be formed into a thumb spica splint, a short arm splint or other configurations.

Bone growth stimulation

Bone growth stimulation involves a non-operative therapy to treat non-union bone fractures. When the bone is broken, it generates a low-level electrical field, activating the body's repair mechanism and stimulating bone healing. This healing mechanism may be impaired in some patients whose fracture therefore may not mend properly or at all. Royce Medical distributes a bone growth stimulator manufactured by Orthofix International which is one of the leaders in the field. Orthofix International makes the Physio Stim Lite bone growth stimulator which provides a low level pulsed electromagnetic field that signals the body's natural healing process to "jump start" its process. The bone growth stimulation product line is a good addition to the company's overall product portfolio, as it is complementary with products already marketed by Royce Medical.

Wound Care

This aspect of the company's operations primarily aims to address diabetic foot ulcers and other lower leg chronic wound conditions.

Pressure Relief Products: The pressure relief products contain a patented insole that is designed to conform the foot and provide specific off loading.

Extra-Depth Shoes: The Extra Depth-Shoes, introduced in 2002 are designed to provide additional room while providing maximum protection and comfort.

Disposable medical products

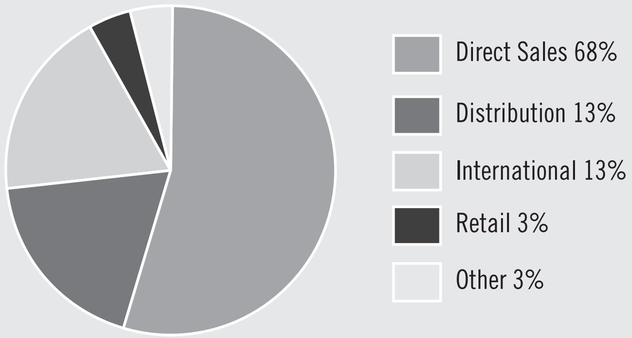
In keeping with the strategy of being a full service product provider to large customers, Royce Medical distributes a wide variety of disposable medical supplies. This particular market segment contains numerous product categories, and for Royce Medical, the bulk of the sales within this particular segment are comprised of several hundred products. Examples of products offered are a variety of exam and surgical gloves as well as a range of surgical instruments and tools for distribution to podiatry offices, including operating scissors, bandages scissors, scalpels, forceps and clamps. Additionally the company distributes a broad range of traditional wound care products, such as standard gauze and bandages.

Sales and marketing strategy

Royce Medical relies heavily on its own distribution network, where direct sales are the most important sales channel.

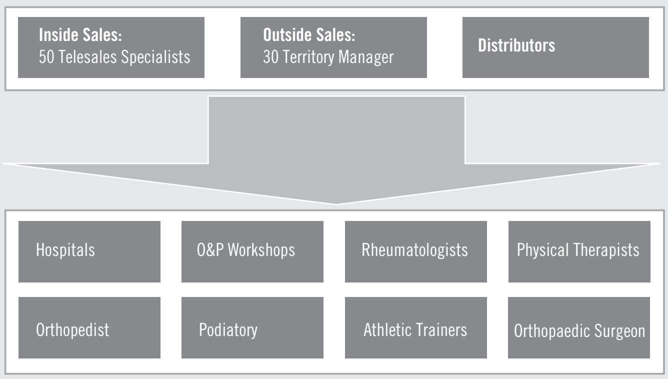
The sales and marketing model employed by Royce Medical is somewhat unique within the orthopaedics and prosthetics industry, where direct field sales, or outside sales, have been the preferred method. Royce has successfully employed telesales, or inside sales, since 1981, and the sales model has delivered consistent sales growth. Customers have become accustomed to the company's approach, and telesales representatives have built up strong relationships with core customers. The model also allows for larger customer coverage at a relatively lower cost compared to direct field sales where extensive travelling is required.

Sales by Distribution Channel



Sales and marketing have been restructured and expanded aggressively in 2004. Today sales and marketing activities are segregated into outside and inside sales. The company's sales function includes 80 sales representatives, of which 30 are focused on outside sales and 50 are primarily engaged in inside sales.

Sales Functions



Outside sales include sales efforts where representatives from the company are in direct contact with the potential buyer of the product, provide in-services for product education. These efforts aim to attract new customers, who can be serviced by the inside sales function on an ongoing basis. The outside sales function numbers about 30 employees.

The inside sales goal is to take a proactive approach and expand sales through:

- Superior customer service
- Development of strong relationships
- Up-selling of newer and higher margin products
- Initiation of new customer contacts

By focusing on telesales, Royce Medical differentiates itself from the rest of the O&P sector, where on-site sales have been the traditional approach to distribution. Today the company has extensive experience in telesales and this form of distribution is deeply rooted in the company culture. The telesales function numbers about 50 employees.

The company utilizes distributors to help target international customers and more broadly penetrate certain domestic markets. Royce Medical sells to customers in over 30 countries, with Europe accounting for the majority of international sales which amounted to 13% of total sales for the first five months of 2005. Sales through US distributors accounted for approximately 13% of the company's total revenues as of year to date May 2005.

In addition to its product offering Royce Medical offers its customers value added services including on-line shopping and reimbursement billing. The on-line shopping service has been part of Royce Medical's business since 2004. The on-line shopping service provides the customers with a quick order form which simplifies inventory management for them. Royce Medical has partnered OrthoMart to provide customers with a service for billing healthcare insurance companies electronically for DME (durable medical equipment) products. It provides the customer with a way to treat durable medical equipment as a business as it provides profit and loss reports by healthcare insurance, by doctors, inventory management reports and claim status reports. Royce Medical owns a 30% share in OrthoMart.

Key employees

Royce Medical's senior management team brings leadership, experience and expertise to Ossur. The team consists of 12 professionals with each having decades of experience in this industry and expertise in their roles. Each member of the team will add value to Ossur.

Manufacturing

Royce Medical has outsourced most of its manufacturing for many years. The know-how and expertise they have acquired are valuable assets that Ossur intends to utilize further.

R&D and Intellectual property

R&D activities are vital for the company's operations, as almost 90% of revenues come from patented products that have been developed internally. Royce Medical currently has 57 patents and 14 patents pending. The R&D team has furthermore been recognized for its impact on the braces and support industry as in 2002 the company was awarded the Frost and Sullivan Product Innovation Award.

Financial highlights

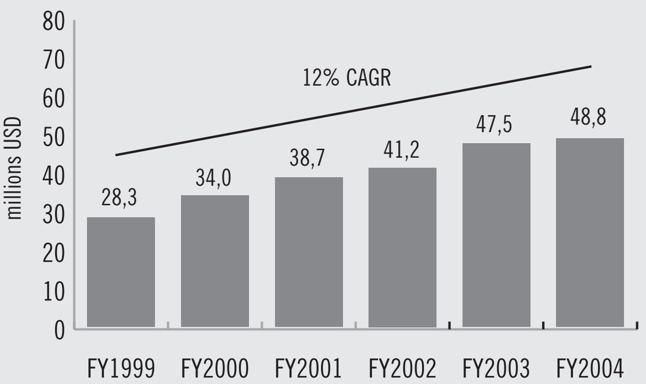
Royce Medical's fiscal year (FY) ended on 30 June. From 1999 through 2004 Royce Medical had GAGR of 12%. During the same time period Royce Medical's EBITDA margin was in the range of 23-30%.

The figures in the table below reflect pro-forma consolidated numbers for Royce Medical and the acquired Jerome and Philadelphia Collar. In 2005 revenues amounted to $67.8 million, which reflects a compounded annual growth (CAGR) of 7% for the period in question. The driving force behind increased sales has primarily been the introduction of new products and an expansion in point of sales. During the same period both EBIT and EBITDA have improved, mainly due to lower cost of goods sold. Reduction in cost of goods sold is primarily a result of the company's decision to outsource production.

(mUSD)	FY 2003	FY 2004	FY 2005	CAGR
Revenue	59.2	62.9	67.8	7%
EBITDA	14.3	16.6	17.8	12%
EBIT	13.2	15.5	16.7	12%
EBITDA margin	24%	26%	26%	
EBIT margin	22%	25%	25%	
Total assets	18.8	135.7	160.3	

As of 30 June 2005 the total assets of Royce Medical amounted to $160.3 million, compared to $18.8 million, on 30 June 2003 which is an increase of $141.5 million. The increase is mainly due to creation of goodwill, which materialized when Royce Medical was acquired in 2003 (FY 2004) in a leveraged recapitalization.

Royce Medical Net Sales



OTHER ACQUISITIONS MADE BY OSSUR

In recent years Ossur has made several acquisitions. Following is an overview of the Company's key acquisitions since the year 2000.

Ossur acquires Flex Foot Inc. in 2000

In April 2000 Ossur acquired Flex-Foot Inc. for $72 million, financed by a share issue and capital from operations. The acquisition marked the first step in Ossur's international expansion. Flex-Foot provided increased scale for Ossur in the prosthetics industry, as well as a wide range of expertise and access to patented know-how. Flex-Foot was founded in 1984 by inventor, research prosthetist and amputee, Van Phillips. Flex-Foot has utilized the superior strength and flexible properties of carbon fibre to develop an innovative range of prosthetic feet that offer high functionality and energy-storing for their users.

Included in the Flex-Foot acquisition was Mauch Inc, which Flex-Foot acquired in 1998. Mauch, which was established in 1959, had extensive experience in the production of hydraulic knees and spinal implants. At the end of 2004 Ossur span off the part of Mauch that is not part of Ossur's core business. Doing so the Company sold all operations related to spinal implants.

Ossur acquires Pi Medical AB in 2000

In September 2000 Ossur acquired Pi Medical for $2.8 million, financed by a share issue and capital from operations. Based in Uppsala, Sweden, Pi Medical has traditionally worked closely with Ossur on distribution. In addition to direct access to the Scandinavian market, Pi Medical brought extensive manufacturing and product development experience to Ossur.

Ossur acquires Karlsson & Bergström AB in 2000

Karlsson & Bergström AB was acquired by Ossur in September 2000 for $3.0 million, financed by a share issue and capital from operations. As a focused distributor, Karlsson & Bergström provided increased access to the Danish, Norwegian, Swedish and Finnish markets, as the company had an established network of sales representatives in these countries.

Ossur acquires Century XXII Innovations Inc. in 2002

Ossur acquired the premium prosthetic knee producer, Century XXII Innovations, in December 2000 for approximately $31 million, financed by a share issue. Century XXII Innovations was founded in 1993 and was known for its Total Knee product line of polycentric knees. Since its establishment, the company has succeeded in producing consistent growth in revenues and earnings. Century XXII Innovations significantly increased the scope of Ossur's prosthetic operations.

Ossur acquires Linea Orthopedics AB in 2003

In July 2003, Ossur acquired the prosthetics producer Linea Orthopedics of Sweden for about $750,000, financed by capital from operations. Linea Orthopedics was at the time of acquisition a start-up company developing and manufacturing high-quality cosmetic covers designed for artificial hands. Linea Orthopedics' activities were relocated to Iceland at the beginning of 2004.

Ossur acquires Generation II Group Inc. in 2003

In September 2003 Ossur acquired Generation II Group for $31 million, financed by capital from operations. The acquisition of Generation II was a major milestone for Ossur, as the transaction marked Ossur's entry into the orthotics market. Generation II's primary expertise lies in the production of customized and off-the-shelf braces for the treatment of ligament injuries, osteoarthritis, and postoperative conditions.

VII. OPERATIONS

Ossur is a global medical device company with strong roots in the prosthetic industry. The Company's overall aim is to be the principal source of innovative products and services, enabling people to live a life without limitations.

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

The acquisition of Royce Medical is well aligned with Ossur's strategic goals. With the combined efforts of the two companies, the new consolidation will provide a broad range of orthopaedics and prosthetics solutions.

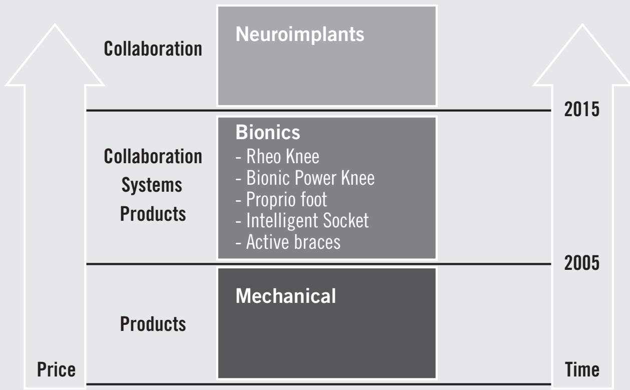
With the acquisition of Royce Medical, the operational structure of the Company has somewhat changed, as the weight of orthopaedics in Ossur's overall operations has increased. This change in overall business profile is best explained by examining the Company's business mix before and after the acquisition. The sales from the orthopaedics part of the business will grow from 24% to 48%. The acquisition provides Ossur with a platform to further pursue cost leadership within the orthopaedics and prosthetics industry.

FUTURE VISION

Ossur's vision is to be a leader in the orthopaedics and prosthetics industry. For many years Ossur has been a leading company in the design and manufacture of prosthetics and intends to gain the same footing in orthopaedics. The acquisition of Royce Medical will move Ossur significantly closer to realizing its strategic objectives in the orthopaedics market and will position Ossur as one of the leading orthotic companies in the US market.

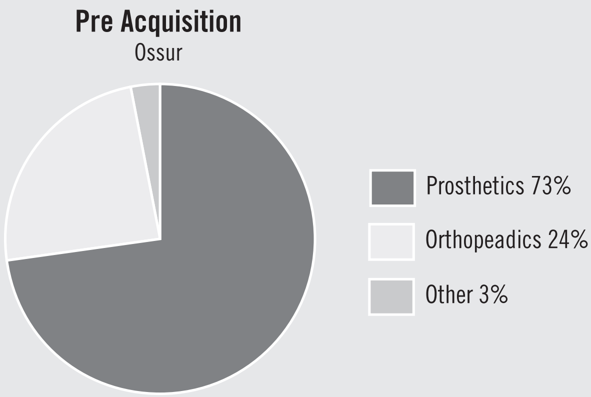
Ossur's strategy is to grow through organic growth enhanced with well placed acquisitions. Ossur will continue investigating interesting opportunities to strengthen its position in the orthopaedics and prosthetics industry, as well as further enhance its opportunities for growth in operations management and sales penetration. A non-binding Indication of Interest letter has been signed between Ossur hf. and a European orthopaedics company concerning the possible acquisition by Ossur of the company for an estimated enterprise value of approximately USD 20 million. The annual sales of the target are estimated to amount to approximately USD 15 million for the year 2005 and EBITDA margin to be around 20% of sales. The acquisition is among other things subject to the findings of a due diligence process. The negotiations are in line with Ossur hf.'s external growth strategy which the company will continue to pursue.

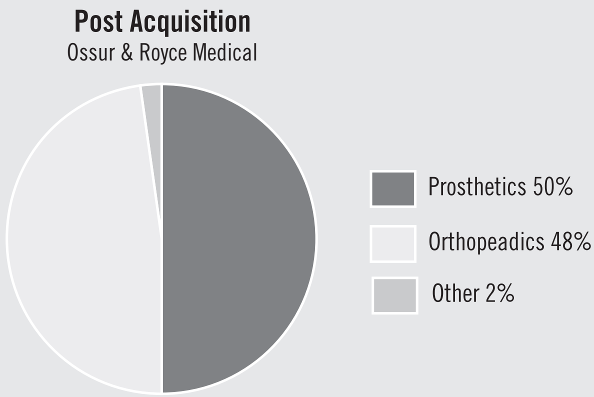
Platform for Growth



Ossur's key competencies to date have been its strong research and development function. Ossur intends to continue investing in R&D in the future. Until now most of the orthopaedics and prosthetics products have been mechanical. Ossur believes that the orthopaedics and prosthetics industry is currently at crossroads and entering a new stage that the company has chosen to call the bionics stage. Ahead are changes that will result in more advanced products with additional functionality and therefore added value for their users. The new set of products will require more versatile R&D functions. Ossur has been working with a concept they called mechatronics which is a platform of mechanical engineering, electronics and intelligent computer control. Ossur's best-known product of the new breed of prosthetics is the Rheo

Product Mix / Sales





KneeTM. The Rheo Knee combines Ossur's technologies with the latest advances in computer science.

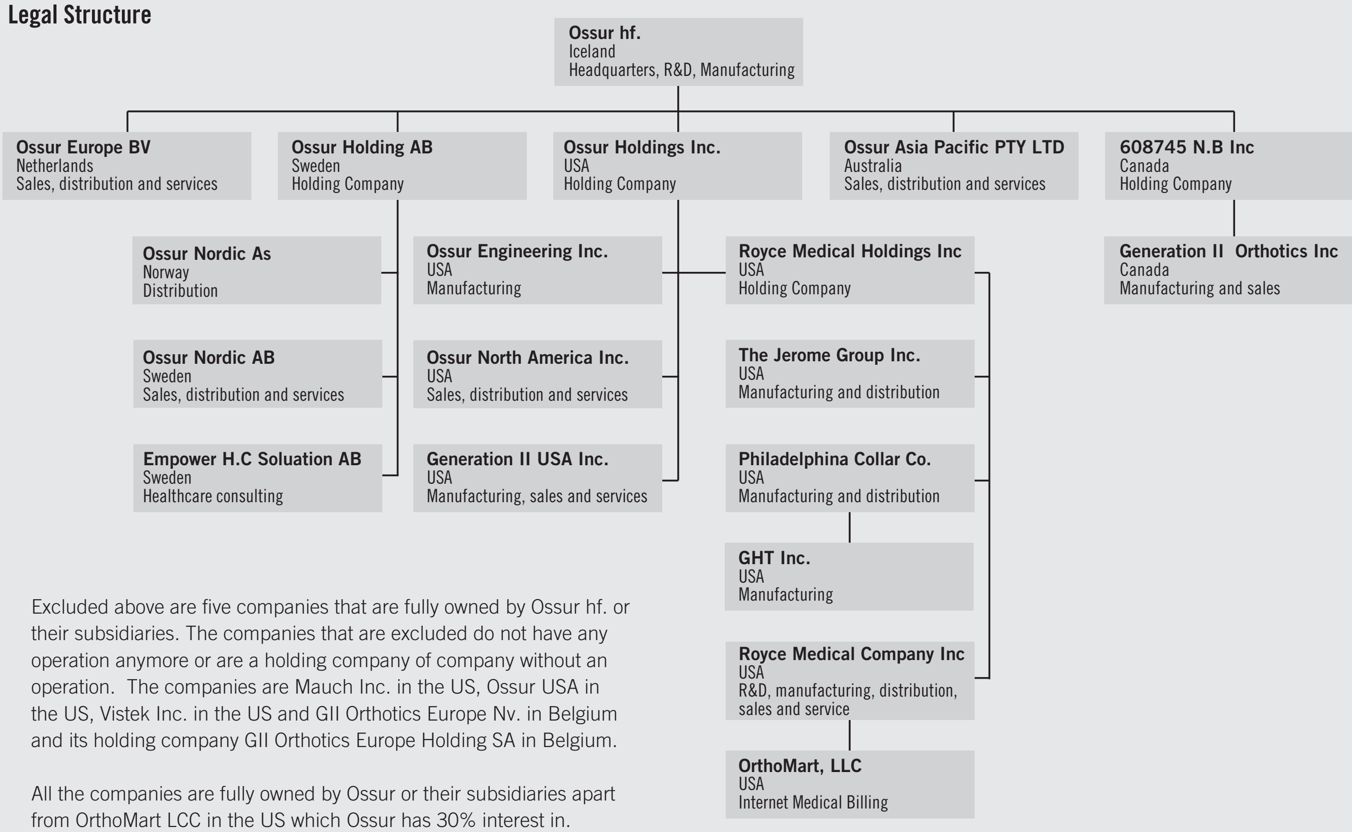
To maintain the highest level of innovation Ossur plans to continue its cooperation in research projects with universities and research companies. The company believes that maintaining the company's current momentum, as well as continuing the R&D at its current pace places the company at the forefront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

The key competencies of Royce Medical were low cost production and its highly effective untraditional sales approach. Ossur intends to leverage those strategic advantages going forward. The Company believes that the combination of state of the art R&D function, low cost production and highly effective sales team makes the company highly competitive for the years to come.

LEGAL AND ORGANISATIONAL STRUCTURE

Ossur's headquarters are located with the parent company, Ossur hf., in Iceland. Ossur operates ten subsidiaries in six countries. In the US the Company operates Ossur Engineering Inc., Ossur North America Inc., Ossur-Generation II USA Inc. and Royce Medical Inc in California and New Jersey. In Europe, Ossur Nordic AB and Ossur Europe BV, in Canada Ossur Generation II Orthotics Inc. and in Australia Ossur Asia Pacific PTY Ltd.

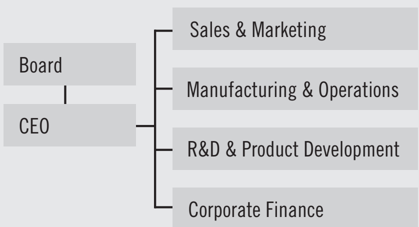
Legal Structure



Excluded above are five companies that are fully owned by Ossur hf. or their subsidiaries. The companies that are excluded do not have any operation anymore or are a holding company of company without an operation. The companies are Mauch Inc. in the US, Ossur USA in the US, Vistek Inc. in the US and GII Orthotics Europe Nv. in Belgium and its holding company GII Orthotics Europe Holding SA in Belgium.

All the companies are fully owned by Ossur or their subsidiaries apart from OrthoMart LCC in the US which Ossur has 30% interest in.

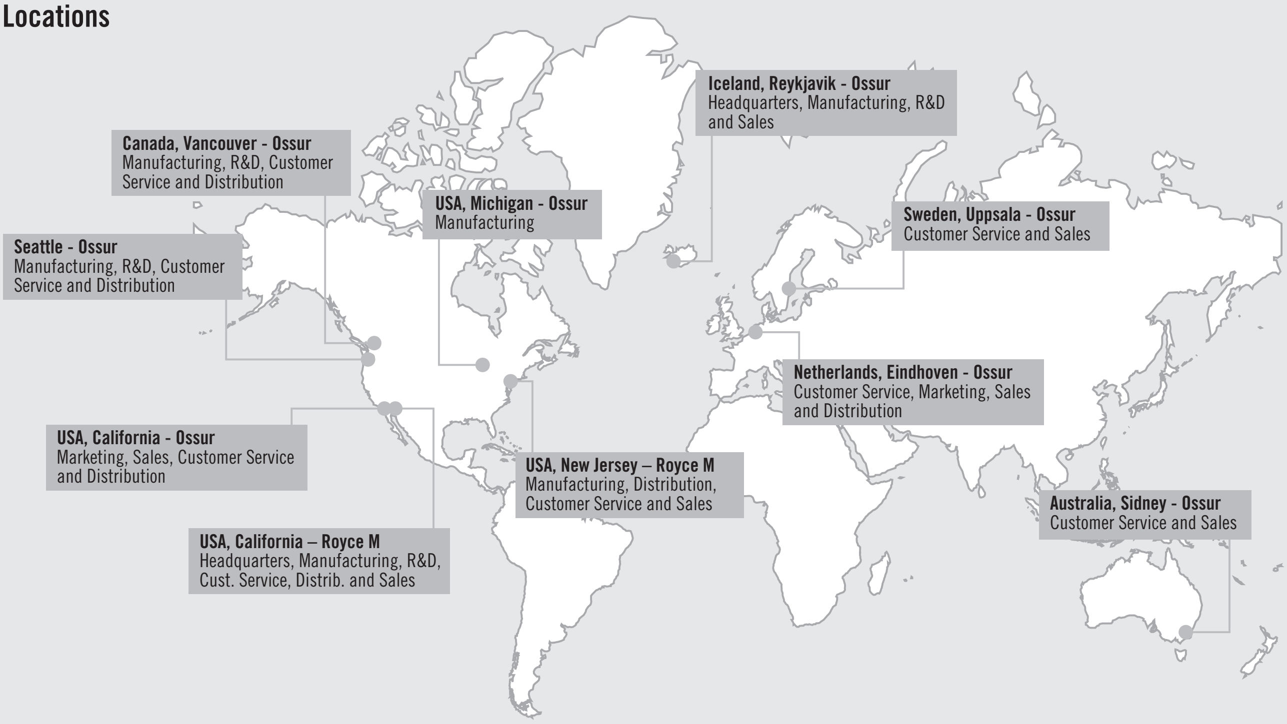
Organizational Structure



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

The geographical overview of Ossur's operations gives an indication of where different activities are carried out within Ossur Consolidation.

Locations



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

The production and assembly of the Company's products is conducted in five locations: at Ossur North America, Inc., in Aliso Viejo, California, where assembly of prosthetic feet is carried out; at Ossur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees; and at Ossur hf. in Iceland, which manufactures liners, prosthetic feet and components. Orthopaedics devices are manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada and Generation II in Seattle, USA.

Royce Medical carries out part of the production in Camarillo, California. Cervical collars are produced in New Jersey, whilst almost all other production is outsourced to Asia.

Localized marketing, sales distribution and services are handled by five sales companies: Ossur North America Inc. in California, Generation II Inc. operations in Canada, Ossur Europe B.V. in the Netherlands, Ossur Nordic AB in Sweden and Ossur Asia Pacific PTY Ltd.

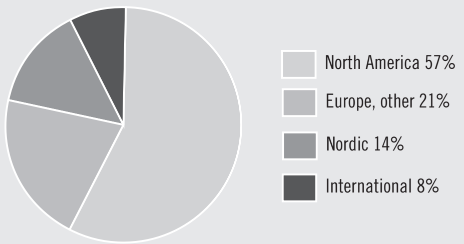
SALES & MARKETING

The following discussion mainly concerns Ossur. For a detailed discussion of Royce Medical's sales and marketing operation please refer back to chapter VI.

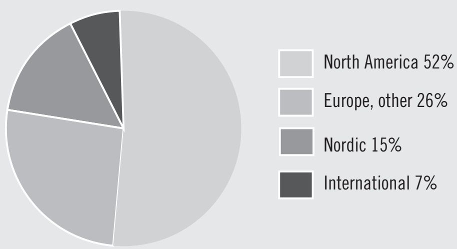
The Sales and Marketing Division is divided into five sales companies within the Ossur consolidation that each serves its own area. The North American market is Ossur's single most important market, as in 2004 it accounted for about 52% of sales are generated in Ossur North America. With the acquisition of Royce Medical, the North American market will become even more important and account for about 64% of the Company's total sales.

Geographical Split

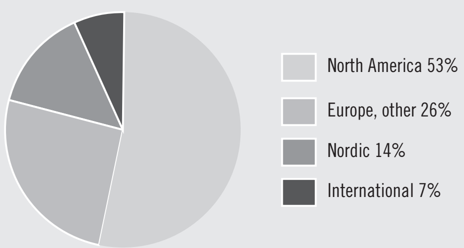
Ossur 2002



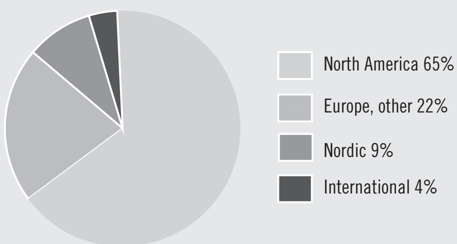
Ossur 2003



Ossur 2004



Ossur and Royce Medical Pro Forma 2004



The European market is an important market for the Company and in a combined company of Royce Medical and Ossur it has potential for incremental sales of Royce Medical's products utilizing Ossur's sales channels in Europe.

Ossur North America

The Company's largest market is the North American market. In Q2 2005 North America accounted for 51% of Ossur's total sales. The North American operation sold directly to over 3,000 clients and through over 40 distributors. With the addition of Royce Medical the number of customers in the US grows considerable. Royce Medical sells to over 9,000 customers in the US with 1,200 of those being O&P workshops. There is some overlap of the O&P workshops, but the combined company will have 11,000 customers in the US. Over 80% of Royce Medical's products are sold in the North American market. Royce Medical has a very different distribution system to that of Ossur and sells mostly to different clientele than Ossur. The new consolidation's sales in the North American market amount to 65% of total sales for the combined company. The Company's North American headquarters, Ossur North America, are located in California. The California office is in charge of sales, marketing, distribution, assembly and customer service.

In North America Ossur also distributes its products with SPS (Southern Prosthetic Supply), one of the United States' largest distributing companies. Ossur also has an agreement with Hanger Orthopaedic Group, the largest network of O&P workshops in the US, on the sale of Ossur products in Hanger-owned workshops.

Ossur Europe

In Q2 2005 Ossur Europe accounted for 27% of Ossur's total sales. Ossur Europe is a sales office servicing central Europe. Its largest market areas are the UK, Germany and France. Most of Royce Medical's sales outside of the United States come from Europe. Royce penetrated the European market through distributors only. Ossur Europe sells to around 1,800 O&P workshops and utilizes 5 distributors. Ossur sees opportunities in utilizing its distribution network in Europe to further grow the sales of Royce Medical's products. The European operations are characterized by the challenges posed by different reimbursement systems and healthcare processes in 13 countries. The pressure from healthcare authorities and insurance companies looking for more economical solutions is increasing. Ossur responded to these high demands by creating applications such as O&P Business Solutions for O&P workshops, enabling customers to better manage their business.

Ossur Nordic

Ossur Nordic AB's headquarters are located in Uppsala Sweden. In Q2 2005 Ossur Nordic accounted for 15% of Ossur's total sales. The sales region of Ossur Nordic AB includes Scandinavia, the Baltic countries and Poland. Ossur's market position in the prosthetics market in this region is strong, and therefore growth projections are lower for the Nordic prosthetic segment than for other markets in which the Company is active. With Ossur's strong foothold in Scandinavia the company believes that there are incremental sales opportunities selling Royce Medical's products utilizing the Ossur's distribution network. The largest markets are Sweden and Norway.

Ossur International

On 1 July this year Ossur opened a new sales office, Ossur Asia-Pacific. The new office is based in Sydney, Australia. Ossur Asia-Pacific is a part of the Ossur International Markets division and will support the division's activities in Japan and China, and assume responsibility for business development in Korea, Taiwan and eight further countries throughout Asia. Ossur Asia-Pacific sells both direct to O&P workshops and through distributors. In Q2 2005 the International Markets division accounted for 7% of Ossur's total sales.

Distribution channels

The prosthetic business is 100% prescription based sales. Hence, for this line of business Ossur has focused its marketing and direct sales efforts towards O&P workshops and other certified businesses. For the orthopaedics business, the target group has been to a large extent the same, although a certain portion of sales are non-prescription products. For the proportion of sales that is not prescription based, the products are primarily distributed through pharmacies.

In order to target end-customers, Ossur has traditionally employed a direct sales approach, i.e. field sales based on person-to-person contact. This sales approach is especially important for the high end, highly technical prosthetic products. Ossur has also entered into distribution contracts with third party distributors. Recently Ossur made such third party distribution agreements with SPS (Southern Prosthetic Supply) owned by Hanger Orthopaedic Group, one of the United States' largest suppliers of orthopaedics and prosthetics products, on the distribution of the Company's products in USA. Ossur has also made agreements with Hanger Orthopaedic Group, the largest network of O&P workshops in the USA, on the sale of Ossur products in Hanger-owned workshops.

Royce Medical has segregated sales into inside and outside sales, where outside sales focus on customers that prefer person-to-person relationship. The outside sales force furthermore meets new customers and introduces them to their product offering. Sales focus is primarily through a referral approach. The inside sales function has about 50 telesales specialists. Their role is to develop current customer relationships and initiate new customer contacts. Royce Medical has developed its telesales function since 1981. Telesales have proven to be an effective way of selling orthotic products, thus a key component of Royce Medical's growth. Royce Medical is the only key player in the orthotics business that has been successful using telesales as a key strategic competence. The telesales specialists are knowledgeable about the products and offer customers advice about quality and functionality. A telesales specialist is much more effective than an outside sales specialist in terms of reach and number of potential contacts per day. The telesales specialist does not need to spend his/her valuable time in travelling between customers, spend time waiting for customers and work on the relationships with contact persons that supply them with referrals. This added effectiveness of a telesales specialist is important in the US market where you have over 100,000 professionals as potential customers.

NUMBER OF PROFESSIONALS IN THE US MARKET

Orthopedists	20,000+
Rheumatologists	3,000+
Physical therapists	45,000+
Orthotists and prosthetists	3,000+
Athletic trainers	32,000+
Podiatrists	14,000+
Total	117,000+

Source: Frost & Sullivan report on Orthotics market 2003

Royce Medical's primary markets are orthopaedic, DME (durable medical equipment stores), O&P, podiatry clinics and hospitals. The company also markets its products to surgery centres, urgent care, GP (general practice) etc. Certain product lines are sold directly to the end-user through pharmacies, the internet and retail stores. Ossur however, markets its products mainly by direct sale to O&P workshops or through distributors to O&P workshops. The Royce sales model will open opportunities as they sell to diverse market segments. Additionally Royce has a long tradition and experience in telesales which is a new marketing tool for Ossur.

Business development

In 2001 Ossur established a business development is to seek out new business opportunities and new means of utilizing the Company's technological and industry specific expertise in alternative markets. Ossur possesses extensive knowledge of materials and production processes for materials such as silicone and carbon fiber and is constantly looking into the possibility of utilizing this knowledge to design and manufacture products for alternative markets.

One of the most successful projects the business development has engaged in is the development of the SMART (Standardized Multidisciplinary Amputee Rehabilitation and Training) quality system. The purpose of the system is to reduce the time from amputation to complete rehabilitation. The system is mostly intended for use by physicians, therapists and prosthetics. The SMART program furthermore represents Ossur's commitment to amputees and health care professionals based on an entirely new approach.

MANUFACTURING & OPERATIONS

Ossur is constantly aiming for increased efficiency, and its overall strategic goals include ambitions for cost leadership within the orthopaedics and prosthetics industry.

In 2003 Ossur's production capacity was increased and the utilization of production facilities was improved by investing in high output machinery. Improvements were also made in flexibilities and response capabilities. This improvement in efficiency was the prime reason for an improvement in gross margin in 2004.

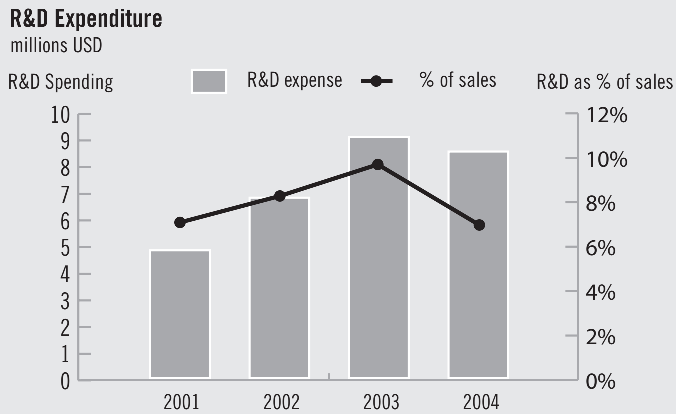
Ossur's largest prosthetic production unit is in Iceland. The knee production is carried out in the US, and the manufacturing of orthopaedics products, particularly knee braces, is conducted in Seattle and Vancouver, while ankle braces are manufactured in Iceland.

Major organizational changes and the integration of the Generation II companies into the operations of Ossur have now paid off in the form of greater operating efficiency. Extensive reorganization has been carried out on the product control and orthopaedics R&D work within Ossur. Several large product development projects involving knee braces started in 2004 and changes were also made in their manufacturing. In 2004 Ossur introduced CadCam solutions, which shortened turnaround time and increased the level of customer service, primarily in shipping.

Royce Medical has a light manufacturing operation in California. To reduce production costs Royce Medical has developed production processes for outsourcing to subcontractors. Since 1982 Royce Medical has been outsourcing to Asia. Royce Medical was among the first companies in the orthopaedic industry to outsource production to China. Currently over 90% of Royce Medical's sales are from outsourced products, mostly to China and Taiwan, but the company also works with subcontractors in the US. In order to maximize quality and minimize production cost Royce Medical works closely with each of its subcontractors and each subcontractor gets a frequent reviews. The review covers both efficiency and product quality. In many cases Royce Medical owns the production equipment, which requires them to keep an even closer relationship with its subcontractors. Production of cervical collars is conducted in New Jersey.

R&D & PRODUCT DEVELOPMENT

Ossur's strategy is to be a source of innovative, high-quality orthopaedics and prosthetics products and services. The Company has always seen R&D as essential to future development and is determined to maintain its technological competency through investment in research and development activities. Last year's investment in R&D amounted to 7% of total sales of the Company, which is in line with R&D investments during recent years.



R&D efforts continue to focus on further developing technical platforms, giving a proprietary, competitive advantage in four areas that were defined several years ago as core competencies within the Company, namely: silicone material, carbon fiber composites, precision metal machining and mechatronics. The expertise in these areas acquired during years of R&D in the prosthetics field has been utilized in expanding the business into other fields, such as orthotics and wound care.

Ossur's goal is to secure the organic growth of the Company through the continuous introduction of new products. In-house R&D and know-how in combination with development partnership with third party has been fruitful. Ossur works closely with universities and research companies to maintain the highest level of innovation. The Company's most complex project to date, the Rheo KneeTM came from the relationship between Ossur's experts and Dr. Hugh Herr's Media Lab at the Massachusetts Institute of Technology.(MIT). The Rheo Knee has attracted attention for its breakthrough technology and was featured in Fortune magazine in an article called "25 Best Products of the Year" and in Time Magazine's cover story "Most Amazing Inventions of 2004". To add to the Company's Bionic product offering the Company is in the final stages of signing an agreement with the Canadian

R&D company Victhorn Human Bionics on the development of a bionic product line. According to the agreement Victhorn shall develop three to six products over a time period of three to six years. Victhorn is one of the research companies which Ossur has maintained good relationship with for couple of years.

The advances in prosthetics in the last few decades have been substantial. Ossur has developed a range of prosthetic products that not only substitute for missing limbs but also help pushing the boundaries of performance and mobility, enhancing the quality of life for its users.

The number of patents and patent applications constituting Ossur's IP portfolio is a measure of the Company's emphasis on R&D investment. At the end of 2004 Ossur's portfolio consisted of 84 US patents and 80 US patent applications pending, as well as many international patents deriving from these patent families. Most of Ossur's patents are for products related to prosthetic feet and prosthetic knees. The average remaining lifetime of an Ossur patent is 10 years.

Royce Medical is highly dependent on its R&D function, as over 90% of products are internally developed patented products. The R&D of Royce Medical works closely with its customers to identify niches in which it develops high volume low cost products. The R&D engineers' mandate is to design a product and manufacturing processes with manufacturability that maximizes the product's margin.

When developing new products Ossur works with a five stage design process. Phase one is the initiative of a new product while phase two focuses on building the business case and assessing the feasibility of the new product. Phase three involves the design, testing of products, and building the marketing approach for the new item. Phase four involves manufacturing the product, while phase five includes product launch and post market surveillance.

For new products to move through the design process, certain criteria must be fulfilled before moving from one phase to the next. By structuring the design process in this way, Ossur ensures that the new product launch is commercially viable.

PRODUCTS - PROSTHETICS

Years of experience in materials technology and design have helped Ossur to develop prosthetic systems that provide good fit and function. The Company's prosthetic offering reflects its commitment to amputees, practitioners and the prosthetic industry in general.

Ossur's prosthetic product lines have a full spectrum of premium lower limb prosthetic components, designed to reflect the individual nature of users. Examples of prosthetic products include:

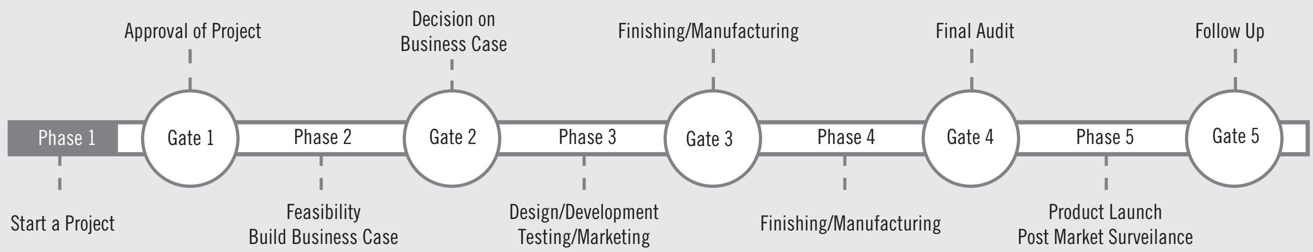
Feet: The design of FLEX-FOOT® prosthetic feet, combined with the strength and flexible properties of carbon fiber, has permitted amputees to walk with a gait indistinguishable from a natural gait and has enabled athletic amputees to break world records and achieve athletic results comparable to those of able-bodied athletes. The Flex-Foot product range comes from advanced R&D work. The product range is produced in-house and is protected by patents. The main features of Ossur's own carbon composite production are automation, advanced technology and a modern and dynamic manufacturing process which helps improve the quality, reduce cost and improve R&D flexibility. Strict testing procedures performed at Ossur improve the required durability of products, user safety and acceptance of features.

Knees: Two well-known names in the prosthetic field belong to Ossur's knee solutions. Mauch® and Total Knee® are both established prosthetic knee lines. The uniqueness of the Total Knee is in the "locking moment", which keeps the knee from collapsing when it is at full extension. Its polycentric design imitates natural knee motion, while the adjustable "stance-flex bumper" acts as a shock absorber, stimulating the flexing action that occurs in the normal knee while walking or running. Mauch's progressively designed hydraulic systems provide amputees with a less strenuous and more controlled means of ambulation on varied terrains and in sports activities. From running step-over-step, to walking down stairs, Mauch offers a smooth natural gait and flexibility for more active lifestyles.

In 2004, Ossur entered the growing electronic knee market, launching its much anticipated Rheo KneeTM – the first artificially intelligent knee system having the ability to learn and adapt to its user's movements in real-time, resulting in a continually improved and optimized performance. Through the use of a microprocessor, integrated sensors, and an innovative magnetorheologic (MR) fluid actuator, the Rheo Knee allows the user walk as nature intended.

Liners: Iceross® liners are made of proprietary silicone blends for security, durability and comfort. Silicone is one of the most bioinert materials available, making it the material of choice in numerous medical applications. Ossur silicone blends are specially formulated to provide the right level of softness and strength to suit individual needs. The design of Iceross® liners for amputees stabilizes soft tissues, reduces stretching, and improves circulation, making them comfortable to wear.

Design Process



PRODUCTS - ORTHOPAEDICS

The development of Ossur orthopaedics combines some of the most effective technologies available today with over 30 years of design experience and a broad knowledge of biomechanics. The Ossur orthotics range aims to provide orthopaedics with the best possible solutions for their customers. It incorporates effective materials and hi-tech, quality-controlled processes throughout design and production.

Description of Ossur's key orthopaedics product groups follows. For a full overview of Royce Medicals product offering please refer to chapter VI.

Foot orthoses: Incorporating the design elements and performance of the Flex-Foot carbon fiber technology, Ossur foot orthoses are supposed to inspire a revolution in lower limb orthopaedics. The same energy-return construction, that fuelled improvements in prosthetic performance, is now available throughout the product line of foot and ankle orthopaedics.

The Ossur AFO Dynamic is a pre-fabricated ankle-foot orthosis, made of carbon fiber. The energy-storing properties of carbon fiber make it ideal material for an ankle-foot orthosis. With the full-length toe lever, anterior shell and Flex-Foot energy return technology, this device gives a mild extension moment to the knee to help with mild knee instability. Incorporating the Flex-Foot technology, the Ossur AFO Dynamic provides a strong, yet lightweight, solution for people with drop foot or other musculoskeletal or neurological conditions.

Knee braces: In 2003 Ossur acquired Generation II Group, a leading North American developer and manufacturer of orthotic knee braces. Generation II's diverse product line consists of customized and off-the-shelf braces. It specializes in braces for ligament injuries, osteoarthritis and post-operative conditions. Nine published clinical and biomechanical outcome studies support the efficacy of GII bracing. The addition of GII's line of clinically proven osteoarthritis (OA) and ligament knee braces makes Ossur an important player in the orthotic sector.

In 1988, Generation II was the first company to develop a brace to manage the pain of knee osteoarthritis, a condition thought to be one of the fastest growing health threats to the quality of life in the developed world. Today, The Unloader® product line continues to be the most prescribed OA brace on the market.

The introduction of the GII 3DX Synergy® Hinge System marked the first major innovation in the ligament bracing of over two decades since the brace replicates the natural anatomic movement of the knee, a feature not previously available with braces on the market.

Additionally, Ossur offers a full line of ligament, post-operative and patella-stabilizing knee braces under the GII brand.

CORPORATE FINANCE

Corporate Finance is one of the four main divisions within Ossur's organizational structure. Corporate Finance is responsible for overall objectives regarding the Company's liquidity management, financial reporting and budget co-ordination, in addition to shareholder and investor relations. Corporate Finance is also responsible for human resource management and planning as well as matters relating to staff facilities. The IT department falls within the scope of Corporate Finance and is responsible for the Company's information technology systems.

Human resources

Ossur operates within an industry where technological innovation is one of the key competitive factors. Thus, for Ossur to remain successful, the Company needs to retain key employees and represent an attractive opportunity for new talent.

Ossur's objective is to employ competent, enthusiastic and well-trained personnel, who are capable of holding responsibility, using their initiative and participating fully in the Company's progress in a global environment.

The following points reflect the overall emphasis of Ossur's HR policy:

- Employee awareness of Ossur's Core Values, mission statement and quality policy
- Stimulating and positive working environment
- Attractive workplace, where employees are given opportunities for advancement

Employee performance is furthermore assessed regularly through regular formal performance audits. The aim of these performance audits is to better enable employees to achieve the Company's set objectives and to ensure that everything is conducted in accordance with the Company's core values.

Over the course of the last five years the number of employees has grown from 120 to over 600. Now with the addition of Royce Medical the number of employees is over 900. In general the level of education is high for the Company's employees, as about 31% have a university degree and about 23% have vocational or technical training. Ossur's employee turnover ratio in 2004 was approximately 16%.

NUMBER OF EMPLOYEES

Avarage number of positions each year 2000–2004

Year	2000	2001	2002	2003	2004	*2005
Employees	327	392	431	480	568	912

* Approximate number of positions in August 2005 after acquistion of Royce Medical.

Most of Royce Medical's, employees are based in Camarillo in California, which is approximately 100 miles from Ossur's US headquarters in Aliso Viejo in California. Traditionally Royce Medical has decentralized decision making where individuals take ownership of their own results. These results have consequently formed the basis for which compensation is based upon. In place are departmental operating plans that are used to measure the performance of each individual on a regular basis.

CORPORATE GOVERNANCE

Corporate governance in Ossur hf. is determined by the Company's Article of Association (last amendment on shareholders' meeting on 19 August 2005) and Rules of Procedure of the Board of Directors (approved by the Board on 11 December 1999). The Company is managed by shareholders' meetings, the Board of Directors of the Company and the chief executive officer (CEO). At the present one committee is acting on behalf of the Board. That is a compensation committee. Each shareholder is bound, without specific undertaking on their part, to abide by the Company's articles.

Shareholders' meetings

The supreme authority in all affairs of the Company, within the limits established by the Company's articles and statutory law, is in the hands of lawful shareholders' meetings. A shareholders' meeting is valid, regardless of attendance, if the meeting has been legally convened. At shareholders' meetings each share carries one vote. Shareholders, shareholders' proxies, the Company's auditors and the CEO are entitled to attend shareholders' meetings. The Board of Directors may also invite experts to attend specific meetings, if their opinion or assistance is required. A shareholder must be registered in the share ledger of the Company at least eight days before the meeting to acquire voting rights. Decisions at shareholders' meetings are taken by majority vote unless otherwise provided for in the articles of association or statutory law. The annual general meeting shall be held before the end of June each year.

Board of Directors and CEO

The Board of Directors of the Company is the supreme authority in the affairs of the Company between shareholders' meetings. The Board is responsible for the organisation of the Company and for ensuring the proper conduct of its operations at all times.

The Board is composed of seven members elected at the annual general meeting for a term of one year. A Board member shall only act according to his own conviction, not the instructions of those who elect him. The Board shall, immediately following the annual general meeting each year, allocate responsibilities among themselves. Members of the Board shall elect a chairman and vice-chairman from their own ranks and they shall be elected by majority vote. In the event of equal votes, issues shall be decided by casting lots.

The Board shall appoint a chief executive officer (CEO) to manage the Company's daily operation, prepare his job description, determine the scope of his powers and duties and decide on his dismissal or accept his resignation. An employment contract shall be made in writing with the CEO, providing, among other things, for his salary and other terms of employment. The Board may entrust the Chairman of the Board with negotiations with the CEO regarding his salary and other terms of employment. The CEO is responsible for the day-to-day operation of the Company, pursuant to the rules established by the Board of Directors, or in accordance with the Company's articles. The CEO shall ensure that the accounts of the Company conform to the law and accepted practices and that the disposal of the property of the Company is secure. The CEO is under obligation to follow all instructions of the Board. He is required to provide any information that may be requested by the Company's auditors. The Board of Directors shall decide in all matters which are regarded as extraordinary or of major consequence. However, the Board may authorise the CEO to deal with such matters. The CEO may also deal with such matters on his own initiative if it is not possible to wait for the decision of the Board of Directors without substantial disadvantage for the Company's operations. In such an event the CEO shall without delay inform the chairman of the Board of his handling of the matter.

The Board shall establish goals for the Company in accordance with the Company's objectives pursuant to its articles, and shall formulate the policy and strategy required to achieve these goals. The Board shall monitor whether the CEO prepares and carries out a business strategy which is consistent with the established targets.

It is the Board's duty to supervise continuously and precisely all aspects of the Company's operations and ensure that the Company's organisation and activities are always in good and proper order. In particular, the Board shall ensure adequate supervision of the accounts and disposal of the Company's property. The Board is responsible for the affairs of the Company between shareholders' meetings and their resolutions and contracts are binding for the Company. The signatures of a majority of the members of the Board are required to bind the Company. The Company signature is written by the Board and only the Board may grant powers of procurement. Important decisions, such as the purchase or sale of property, may not be taken unless all members of the Board have had the opportunity to discuss the matter. The same applies to major borrowings requiring mortgaging the Company's property.

Board meetings shall normally be called on a monthly or bimonthly basis. The chairman of the Board must call a meeting of the Board if any member of the Board, the CEO or the Company's auditor so requests. Board meetings shall be convened with at least seven days' notice, unless shorter notice is unavoidable. A quorum is reached in the Board when the majority of Board members are present, provided that such meeting has been rightfully convened. Important decisions, however, may not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. All matters brought before a Board meeting shall be decided by majority vote. In the event of an equality of votes, the chairman of the Board shall cast the deciding vote.

Board members and the CEO shall not take part in any process of negotiation between the Company and themselves, lawsuits brought against themselves, or negotiations between the Company and any third party or lawsuits against any third party, in which they have a substantial interest which may be contrary to the Company's interests. Board members and the CEO are under obligation to report such incidents. Any agreements which a Board member or the CEO may enter into with the Company, and any agreements between the Company and a third party, must be submitted to the Board for approval (or rejection) if the Board member or the CEO have a substantial interest in such agreements which may conflict with the Company's interests.

Auditors and accounting

An auditing firm shall be elected at the annual general meeting for a term of one year. The auditor, however, shall not be a member of the Board of Directors, CEO or employee of the Company. The auditor shall examine the Company's annual accounts in accordance with generally accepted accounting standards, and shall for this purpose inspect account records and other material relating to the operation and financial position of the Company. The auditor shall at all times have access to all books and documents of the Company.

The annual financial statement and consolidated financial statements of the Company shall be submitted to the Board of Directors for signature by the Board and the CEO. No later than one week before the meeting, the Board of Directors of the Company shall have prepared their responses to the auditor's comments and the responses and comments shall be laid open for inspection by shareholders, together with the annual accounts, at least one week before the meeting.

The Board shall ensure adequate surveillance of accounting and disposal of the Company's financial assets and shall, at least once a year, confirm the Company's operating plan and budget.

Insider information

According to Act no. 33/2003 on Securities Transactions the Company complies with the rules of The Financial Supervisory Authority in Iceland on the handling of inside information and insider trading from 1 July 2005. In addition the Company has in place rules on the handling of inside information and insider trading. These additional rules of the Company state, among other things, that a primary insider may not trade in the securities of the Company during the period from the end of a financial period until financial reports are disclosed, regardless of whether they possess inside information or not. However, such a period shall not be longer than four weeks.

BOARD OF DIRECTORS, SENIOR MANAGEMENT AND AUDITORS

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. A minimum of six Board meetings are held each year.

The Board members of Ossur are:

Petur Gudmundarson (born 1950) has been Chairman of the Board since 1995. Mr. Gudmundarson is a practicing legal attorney and a partner of the law firm Logos, licensed to practice law before the Supreme Court of Iceland since 1986.
Icelandic ID-No.: 050550-2499
Address: Reykjabyggd 11, Mosfellsbær, Iceland
Remuneration from Ossur in 2004: $38,000
Ossur shares in own name: 309,945
Ossur shares owned by his holding company 1907 Holding: 1,228,696
Ossur shares owned by other financially related parties: 0
Share options: 0

Bengt Kjell (born 1954) joined the Ossur Board in 2003. He is Executive Vice President and head of new investments at AB Industrivärden. Mr. Kjell has previously worked with the management consultancy firm Navet AB, as a senior partner. Mr. Kjell has also worked at K.G. Knutsson AB as Finance Director and Senior Vice President. Mr. Kjell holds an MBA from Stockholm School of Economics. He is Chairman of the Board at Pandox AB and Kungsleden AB and a Board Member at Munters AB.
Icelandic ID-No.: 160954-2059 Address: Sweden
Remuneration from Ossur in 2004: $15,000
Ossur shares in own name: 0
Ossur shares owned by AB Industivärden: 74,344,119
Ossur shares owned by other financially related parties: 0
Share options: 0

Kristjan T. Ragnarsson (born 1943) became a member of the Ossur Board in 1999. Since 1986, Mr. Ragnarsson has served as a professor and Chairman of the Department of Rehabilitation Medicine, Mount Sinai Medical Center in New York City. He has also been Chairman of the Faculty Practice Associates Board of Governors at Mount Sinai School of Medicine since 1997. Mr. Ragnarsson graduated from the University Of Iceland's School of Medicine in 1969 and was certified by the American Board of Physical Medicine and Rehabilitation in 1976.
Icelandic ID-No.: 151143-3269 Address: USA
Remuneration from Ossur in 2004: $15,000
Ossur shares in own name: 349,616
Ossur shares owned by financially related parties: 3,542
Share options: 150,000 at ISK 73.7 per share

Niels Jacobsen (born 1957) joined the Board of directors of Ossur in 2005. He is President and CEO of William Demant Holding A/S and Oticon A/S, a Danish industrial group in the hearing healthcare field. Previous positions include President of Aktieselskabet Orion and Vice President, Corporate Affairs for both Atlas Danmark A/S and Thrige-Titan A/S. Mr. Jacobsen is also a board member of numerous Danish companies and organizations, including Novo Nordisk, Nielsen & Nielsen Holding and Sennheiser Communications. He is Chairman of the board of the Hearing Instrument Manufacturers Patent Partnership A/S and holds a seat on the Central Board of the Confederation of Danish Industries. Niels Jacobsen has an MSc in Economics from the University of Aarhus in Denmark.
Icelandic ID-No.: 310857-2119 Address: Denmark
Remuneration from Ossur in 2004: 0
Ossur shares in his own name: 0
Ossur shares owned by William Demand Invest A/S: 78,232,101
Ossur shares owned by other financially related parties: 0
Share options: 0

Sigurbjorn Thorkelsson (born 1966) became a Board Member in 1999. He became a Managing Director at Lehman Brothers Investment Bank in New York in 1998 and currently works for Lehman Brothers Investment Bank in London. Mr. Thorkelsson completed a degree in Mechanical Engineering at the University of Iceland in 1990, and a Master's degree in Industrial Engineering and Finance at Stanford University in 1992.
Icelandic ID-No.: 130966-5279 Address: UK
Remuneration from Ossur in 2004: $15,000
Ossur shares in his own name: 313,072
Ossur shares owned by other financially related parties: 0
Share options: 150,000 at ISK 73.7 per share

Ossur Kristinsson (born 1943) is the founder of Ossur hf. He has served on the Board of Directors since 1971 and was Managing Director of Ossur from 1971 to 1989. Mr. Kristinsson studied prosthetics in Sweden and was accredited by the Swedish Board of Certification for Prosthetics and Orthotics in 1971.
Icelandic ID-No.: 051143-3539
Address: Sæbolsbraut 42, Kopavogur, Iceland
Remuneration from Ossur in 2004: $63,000
Ossur shares in own name: 150,000
Ossur shares owned by his holding company, Mallard Holding S.A.: 29,531,846
Ossur shares owned by other financially related parties: 0
Share options: 0

Thordur Magnusson (born 1949) became a member of the Board in 2005. He is the Chairman and principal shareholder of the investment company Eyrir. Mr. Magnusson holds a seat on the board of a number of Icelandic companies, including the retail companies Byko and Kaupas. He is also Chairman of the board at Marorka, an energy-efficiency systems enterprise. Mr. Magnusson was CFO at Eimskip for over 20 years. He graduated with a Business degree from the University of Iceland in 1974 and holds an MBA from the University of Minnesota.
Icelandic ID-No.: 150549-4939
Address: Ægisída 72, Reykjavík, Iceland
Ossur shares in own name: 0
Ossur shares owned by Eyrir Fjárfestingarfélag ehf.: 33,539,167
Ossur shares owned by other financially related parties: 0
Share options: 0

Executive management

Jon Sigurdsson (born 1956), Ossur President and Chief Executive Officer, has led the Company since 1996. He was the commercial counsellor for the Icelandic Trade Council in New York between 1992 and 1996 and previously Chief Financial Officer at Alafoss between 1989 – 1992. Mr. Sigurdsson also worked as head of the International division of Eimskip (1986 – 1989) and as an engineer for Bang and Olufsen Denmark (1982 – 1984). He is a board member of the Icelandic Trade Council, Icelandic Chamber of Commerce, Reykjavík University and Samherji, one of the leading fishery companies in Iceland. Mr. Sigurdsson has a B.Sc. degree in Industrial Engineering from Odense Technical College in Denmark and a Master's degree in Business Administration (MBA) from the United States International University in San Diego, US.
Icelandic ID-No.: 290656-3549
Address: Muli, Selfoss, Iceland
Remuneration from Ossur in 2004: $335,000
Ossur shares in his own name: 9,945
Ossur shares owned by his holding company Vik Investment Holding S.a.r.L.: 7,872,423
Ossur shares owned by other financially related parties: 2,695
Share options: 0

Arni Alvar Arason (born 1964), Vice President of Sales and Marketing, has been with Ossur since 1996. Prior to his current position he has worked within the Company as Vice President of Business Development, Chief Financial Officer, Marketing Manager and Product Manager. From 1994 to 1996, Mr. Arason was a Marketing Manager at Folda hf., and he was previously Sales and Distribution Manager with Christoph Fritzsch GmbH in Germany. Mr. Arason graduated from the University of Trier in Germany with a degree in Business Administration.
Icelandic ID-No.: 020764-3689
Remuneration from Ossur in 2004: $189,000
Ossur shares in his own name: 0
Ossur shares owned by his holding company Ker Holding S.a.r.L: 1,756,287
Ossur shares owned by other financially related parties: 0
Share options: 0

Egill Jonsson (born 1957), Vice President of Manufacturing and Operations, has been with Ossur since 1996. He has led the Manufacturing division since he joined the Company. He was formerly a project manager at VGK hf., an engineering firm in Reykjavik (1985-1996). Mr. Jonsson has a Master's degree in Mechanical Engineering from the Technical University in Copenhagen, DTU (1984).
Icelandic ID-No.: 130557-5119
Remuneration from Ossur in 2004: $187,000.
Ossur shares in his own name: 16,208
Ossur shares owned by financially related parties: 3,542
Share options: 0

Hilmar Bragi Janusson (born 1961), Vice President of Research and Development, has been with Ossur since 1993. He was formerly a researcher with the Technological Institute of Iceland from 1987 to 1988. Dr. Janusson is also on the board of a number of other Icelandic companies. He holds a degree in Chemistry from the University of Iceland and a Doctorate in Chemical Science and Engineering from Leeds University in England.
Icelandic ID-No.: 310861-4649
Remuneration from Ossur in 2004: $187,000
Ossur shares in his own name: 2,500
Ossur shares owned by his holding company Mycenaean Holding S.a.r.L.: 2,966,956
Ossur shares owned by other financially related parties: 8,085
Share options: 250,000 at 73.7 ISK per share

Hjorleifur Palsson (born 1963), Chief Financial Officer, joined Ossur in the fall of 2001. He is a former partner and board member of the auditing firm Deloitte hf.. Mr Palsson graduated in 1988 with a Business degree from the University of Iceland, and qualified as a certified public accountant in 1989.
Icelandic ID-No.: 281163-4269
Remuneration from Ossur in 2004: $187,000
Ossur shares in his own name: 0
Ossur shares owned by financially related parties: 0
Share options: 1,000,000 at ISK 46.0 per share

Regional managers

Eythor Bender (born 1965), President of Ossur North America, joined Ossur in 1995. Mr. Bender held the position Vice President of Sales and Marketing from 2000 until 2003. He was the Company's Director of Sales from 1997 to 2000 and Marketing Manager prior to that. Before joining Ossur, Mr Bender worked at the Hewlett Packard European Marketing Center in Germany (1993-1995) and with their European Medical Division as a marketing consultant (1989 -1993). Mr. Bender has a degree in Business Administration from the University of Tubingen in Germany.
Icelandic ID-No.: 180565-3109
Remuneration from Ossur in 2004: $321,000
Ossur shares in his own name: 2,500
Ossur shares owned by his holding company Cyclops Holding S.a.r.L.: 442,000
Ossur shares owned by other financially related parties: 0
Share options: 75,000 at ISK 58.5 per share

Olafur Gylfason (born 1969), Managing Director of Ossur Europe B.V., has been with Ossur since 1997, formerly working in international sales and as Marketing and Sales Director for Europe. Mr Gylfason holds a degree in Business Administration from Bifrost School of Business. He continued his studies at Ålborg University in Denmark, graduating with a Master's degree in International Business Economics in 1997.
Icelandic ID-No.: 191269-3229
Ossur shares in his own name: 106.368
Ossur shares owned by financially related parties: 0
Share options: 0

Yvonne Meyer (born 1946), Managing Director of Ossur Nordic A.B., has been working in the O&P field since 1971. From 1988 until the acquisition of the company in 2000, she was the director and owner of Pi Medical, a Swedish company that was distributing Ossur products from 1986 onwards. Ms. Meyer has a Master's degree in Languages and has studied Economics at the University of Uppsala.
Icelandic ID-No.: 030846-2069
Ossur shares in her own name: 151.470
Ossur shares owned by financially related parties: 0
Share options: 0

Kolbeinn Bjornsson (born 1970), Managing Director of International Markets, has administered the department since he joined Ossur in 1999. Mr. Bjornsson studied in Germany and Japan. He has a masters degree in business economics from the University of Mannheim and a degree in Japanese studies from Hitotsubashi University in Tokyo.
Icelandic ID-No.: 190670-5119
Ossur shares in his own name: 0
Ossur shares owned by financially related parties: 0
Share options: 0

The Board members, CEO and other executives were granted share options during the years 2000-2001 which are exercisable in the years 2005-2006 on the condition that the respective individual still is a member of the management. Outstanding share options amount to 1,816,250 shares in Ossur hf. No dividends, loans or commitments have been extended to these persons. In the Company's Articles it states that the Company shall not grant any loans to shareholders, Board members or the CEO of the Company, nor provide them with guarantees. These provisions do not, however, apply to normal business loans. The Company has no share options outstanding to parties other than Board members and certain employees and no decision has been made on granting further share options to employees or Board members.

SHARE OPTION CONTRACTS OUTSTANDING 8 SEPTEMBER 2005

DATE GRANTED	CONTRACT RATE ISK PER SHARE	NUMBER OF SHARES EXERCISABLE IN YEAR		TOTAL SHARES
		2005	2006	
June 2001	46.0		1,000,000	1,000,000
January 2001	58.5	266,250		266,250
July 2000	73.7	550,000		550,000
Total		816,250	1,000,000	1,816,250

Auditors

The elected state authorised public accountant of Ossur hf. is Deloitte hf., Icelandic ID-No. 521098-2449, Address: Storhofdi 23, Reykjavik. Auditors on their behalf are Heimir Thorsteinsson, state authorised public accountant, born 1970 and Thorvardur Gunnarsson, state authorised public accountant, born 1954. Deloitte hf. has been Ossur's auditor since the Company's foundation in 1971 and Mr. Gunnarsson and Mr. Thorsteinsson have acted on its behalf since 2001.

Fees to the elected auditors of all companies within the consolidation amounted to $406,000 for the year 2004. Thereof $190,000 was for the audit of the annual accounts, $95,000 for the review of the interim accounts and $121,000 for other services than the audit of the annual accounts and review of the interim accounts. The auditors are not allowed to own shares in the Company.

VIII. RISK FACTORS

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding shares in Ossur hf., all of the information in this document and, in particular, the risks and uncertainties described below, should be carefully considered. The risks and uncertainties described below are some of those that may materially affect the Company and any investment made in its shares. If any combination of these events occurs, the trading price of the shares could decline and investors might lose part of their investment or even all of it. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware may also impair the business and operation of the Company. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Company. The following discussion is not exhaustive.

RISKS RELATED TO THE OFFERING

Risks inherent in equity investments

Equity investments involve a variety of risks. Examples of such risk factors that may have a material effect on the price of the Company's shares, and thereby on the investment value, are market risk, liquidity risk and counterparty risk. The share price can fluctuate considerably due to factors such as variations in operating income or cost, changes in the market environment, adverse commentary about the Company and its products in the media and changes to the Company's competitive position. Moreover, it must be kept in mind that shares are a subordinated claim on the assets of companies. This means that in the event of the Company's liquidation, the shareholders will receive what is left after all other claims have been met. In many countries, shares have yielded a better return than bonds measured over long periods of time. Nevertheless, long periods can also be found where the return on shares has been worse than on bonds and even negative. Those who intend to invest in the Company should know that there is no guarantee of a return on their investment in the future and investors should bear in mind that even though stocks can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore suggested that those who intend to invest in stocks pay close attention to diversifying their risk and seek investment advice.

Further share capital increase can dilute shareholdings

If new shares in the Company are issued, the proportional shareholding of those who already hold shares in the Company will be reduced accordingly, unless they themselves acquire the new shares pro rata to their existing holdings. The purpose of increasing capital is normally to finance projects with the long-term intention of making the Company more valuable in the future. Shareholders may therefore be faced with increased risk for their investment alongside the dilution of their shares. It is possible that the Company will consider increasing its share capital further in the future in order to finance the Company's continuing growth.
Shareholder structure

The structure of shareholder ownership can be a risk factor for investors. A lack of leading investors or large concentrations of ownership are examples of circumstances that can have negative effects. Investors should be aware of the fact that ownership of the Company can change rapidly and without any prior warning.

RISKS RELATED TO BUSINESS OPERATIONS

Products

Ossur holds numerous patents for the protection of its products and components. When a patent expires some of the Company's competitors are likely to introduce products that are similar and can thus pose as substitutes for Ossur's products. This could affect the profitability and the revenues of the Company adversely. Ossur's strategy is to defend its patents by all legal means. Defending the patents can result in costly litigation against some of the Company's competitors. Enforcing such a strategy could result in counter claims against the Company.

Marketing new products is essential for Ossur's future growth. The Company is therefore dependent on development and/or acquisition of technologies and licences to be able to enhance and add to the current product portfolio. If for some reason Ossur is not successful in adding new products, continuing profitability can be compromised.

Litigations

Lawsuits are very common in the health care equipment sector. Filing and defending intellectual property rights law suits is costly. In addition to being costly the lawsuits are time consuming for Ossur's management and technical teams. Even though the Company is awarded some damage payment for breach of its intellectual property rights there is no guarantee that the Company gets compensated. As already announced Ossur has been awarded $6.7 million for damages in its litigation against Bledsoe Brace Systems. Bledsoe Brace Systems has filed for chapter 11 bankruptcy which makes it impossible to know if any of the amount can be collected. Intellectual property rights lawsuits can furthermore lead to loss of reputation, brand equity or loss of sales due to products that need to be discontinued as a result of intellectual property lawsuits.

Ossur operates in competitive environment in which most competitors have a number of patents to protect their products. There is always a potential risk that Ossur could experience litigation for patent infringement. Currently Ossur is involved in a legal procedure in Sweden against Mölnlycke Health Care. Following the accusations of Mölnlycke Health Care that Ossur's new Gentleheal silicone coated wound dressing infringed Mölnlycke's European patent, Ossur filed a suit demanding a declaration of non-infringement from Mölnlycke. Financial risk resulting from this case should be minimal as the product has not been put on the market yet. The Company has plans to market its wound care by end of this, which will increase the risk of litigation angainst the Company.

The manufactures of health care equipment are responsible for the safety and effectiveness of their products. The risk can be mitigated by quality control and product testing. Ossur is insured against costs that results from defected products, including damage payments rewarded in lawsuits. The insurance coverage for product liability has a cap of $20 million. There is no guarantee that liability claims will not exceed the insurance cap. If claims exceed the insurance cap it will affect the profitability of the Company negatively. Currently Ossur is developing numerous products for future introduction to the marketplace. If any of those products turn out to have any design defects after their introduction, it can delay sales and damage the reputation of Ossur. This could result in loss of revenue.

Market

Ossur operates in the expanding orthopaedics and prosthetics market. If Ossur's assumptions about the market for its products are incorrect it may affect Ossur's profitability in the future. Assumptions regarding demographic trends are of high importance for Ossur. The users of Ossur's products are mostly elderly people, and people living active lifestyle or individuals suffering from diabetes. Ossur assumes that the population of the elderly will continue to grow and an increasing proportion of this population is living an active lifestyle and therefore the number of people suffering from diabetes is on the rise. If these predictions do not materialize, for example, due to a cure for to diabetes, or any other reason the profitability of Ossur could be affected.

If the Company needs to discontinue any of its products the Company will be adversely affected. With the acquisition of Royce Medical the product offering of the Company has become more diversified. If the Company needs to discontinue any of its products due to litigation, regulation changes, substitute product or any other reason the Company will be proportionally less vulnerable.

Competition

The Company operates in a very competitive business environment, where industry participants are niche companies and larger diversified orthopaedics and prosthetics companies. The industry has also attracted large corporate groups that have substantial financial strength. Increased competition by excessive growth focus of current players or new entrants might reduce pricing power and diminish sales for incumbent firms.

Ossur has noticed a trend that customers increasingly demand total solutions and high level of service. With the added product offering following the acquisition of Royce Medical the Company feels it becomes better positioned to compete in the marketplace. There is no guarantee that the increased product offering will bring increase sales.

Government and health care policies

Changes in governmental regulations and health insurance policy can substantially affect the market prospects for Ossur.

The products of the Company are subject to various regulations and supervision by public authorities. In the Company's largest market, the US, the company needs to comply with the Food and Drug Administration (FDA). In most of Ossur's other market areas the regulations are similar to those that are applied by the FDA. Failure to comply with the regulations could impose sanctions that could affect the profitability of the business. Currently all of Ossur's products comply with FDA standards and are CE market for Europe. Changes in quality standards, authorisation for production and development as well as granting of marketing licences can thus have a strong effect on the Company and its future plans.

Introducing new products or modifying existing products is dependent on the approval from the authorities in each market area. Failure to obtain approval from the authorities and potential cost of product modifications to get approval may affect the Company adversely in the future.

Ossur's products are highly contingent on subsidies from governments and insurance companies but not directly from the end-user. Changes in reimbursement policies in the Company's market areas, especially in the US, will affect the whole O&P industry. In recent years substantial effort has been put into cutting health care expenses. As health care costs are escalating for most countries, there will most likely be continued pricing pressure on O&P manufacturers. Changes in reimbursement policies and cost cutting in specific fields of health care could affect Ossur's prospects.

Reputation

Reputation and general brand awareness is an important factor within the orthopaedics and prosthetics industry. Any event, that would result in a negative effect on Ossur's reputation or in any other way impair Ossur's brand equity, could have adverse affects on the Company's performance.

Distribution

Ossur relies on its relationship with orthopaedics and prosthetics professionals and other agents to sell their products. If Ossur fails to maintain those relationships the Company could be adversely affected. Some of Ossur's products are furthermore sold by third party distributors. Dealing with distributors always involves the risk of vertical integration between the distributor and some of the Company's competitors. Such action could have adverse effects on the Company's sales. The company's largest customer accounts for 11% of the combined sales. Other customers are smaller and account for less than 2% of the combined sales. This shows that the company is not overly dependent on any one customer, even though losing a customer will most likely affect the company's profitability.

Production Facilities

Ossur's production facilities might be affected by man-made or natural catastrophes. If such things were to happen the Company's production capabilities would be adversely affected, which could lead to an inability to meet customer orders. This could lead to a decline in sales and increase in costs due to necessary shifts in production within the Company and potential outsourcing of parts of the production. Even though the Company has insurance to cover such losses there is no guarantee that insurance payments will be sufficient to cover the full loss of the incident.

Royce Medical, which has become part of Ossur, outsourced over 90% of its production to Asia. The low production costs resulting from outsourcing to Asia was one of Royce Medical's key competencies and Ossur intends to continue those outsourcing relationships. Most of Royce Medical's outsourcing is to China and Taiwan. There is a political and economical risk of outsourcing to those countries which could affect the profitability of the Company adversely.

Risk related to the outsourcing involves the risk of trade secret leakage. When a company works with an outsourcer it requires the company to teach the outsourcee how to produce its product. There is always a risk that some of the outsourcers will make the same product for, or transfer know-how to, a third party company. The risk is that the third party company will compete in markets where the product has no patents and where there are vague laws relating to proprietary rights and almost non-existent enforcement of such laws. If this happened this could affect the company in its emerging markets. To mitigate the risk of trade secret leakage the Company works closely with its outsourcers and also chooses not to outsource its state of the art products.

Suppliers

Ossur is dependent on a limited number of suppliers for both silicone and carbon. In the case of loss of a key supplier the Company's operations could be disrupted, as the ability to deliver products would be adversely affected, which could result in cancelled orders. Furthermore, the loss of a supplier could incur expenses to obtain the materials from an alternative source, which would negatively affect profits.

Management & other employees

Management risk is the risk involved in the management, organization and expertise which exists within the Company. Ossur's Board of Directors, management and key personnel possess decades of experience and extensive knowledge of activities. This means that Ossur as a high tech company is heavily dependent on its key employees. The Company is always at risk of losing key employees, which would result in loss of valuable knowledge and experience. To minimize the risk of loss of service of any key employee the Company believes it offers competitive salary packages.

Ossur's most specialized production is in Iceland and a large part of its R&D operation and most of the senior management is located there. Iceland is a small economy with often only few companies competing for specialized employees. Companies in Iceland that need employees with specialized education are dependent on the education system to supply talents for some of their entry level positions. Relying on the education system with its long pipeline can result in lack of qualified candidates. The education level of Ossur's employees is high. In 2004 approximately one third of the company's employees had university degrees and over one quarter had vocational or technical training. In Iceland there is no competitor in the orthopaedics and prosthetics field, which means that there is less risk of employees joining one of the company's competitors as doing so would require a departing employee to move abroad. Similarly, there are fewer opportunities to recruit experienced employees from other orthopaedics and prosthetics specialised companies because it would in many cases require them to relocate to Iceland.

Growth and international expansion

Ossur is a company that has grown by focusing on both internal and external growth. With respect to external growth, Ossur has acquired a number of companies within the orthopaedics and prosthetics field during recent years. The acquisition of Royce Medical is Ossur's largest acquisition to date. An acquisition of this magnitude will include numerous risk factors for Ossur. These risk factors are primarily related to Ossur's ability to execute the integration of the two companies and realize the benefits that comprised the rationale for the acquisition.

Ossur is built on a series of technical innovations, as the Company has focused extensively on innovation in recent years. Royce Medical is dependent on its patented products and the focus has been on an untraditional selling model as well as specializing in low cost production methods. Integrating two cultures is always challenging. Underestimating the importance and difficulty of cultural integration is a great risk in merging any two companies. Any factors leading to failed integration would have an adverse affect on Ossur's operations.

Currency risk

Shares in Ossur are traded in ISK but Ossur's accounts are reported in USD. Large portion of the Company's debts are in US dollars as well as the majority of the revenues and costs. The euro is also an important currency for the company both with respect to revenue and cost. Consequently, any fluctuations in the respective exchange rates could have an impact on any return on investment in the Company's shares.

Ossur does not apply any derivative hedging in the Company's financial management, only natural hedging is employed. As a certain currency mismatch exists in terms of revenues and costs, the Company's operating results are vulnerable to major changes in principally ISK, US dollar and euro exchange rates.

Tax

Ossur could be affected by changes in tax legislation in the various countries that influence the financial results of the Company. Ossur is not aware of any ongoing tax inspection regarding the Company's entities and has no reason to believe that such an inspection is imminent. Investigation of the Company's tax filings, as for any other company, may be initiated at a later stage and affect the prospects of the Company.

IX. FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS OF OSSUR 2002-2005

The financial analysis in this section is a quantitative reflection of Ossur's performance in recent years. The following overview of the consolidated profit and loss account, balance sheet and cash flow of Ossur is based on the Company's audited consolidated annual accounts for 2002-2004 and the reviewed consolidated interim accounts for the first six months of 2005. The consolidated accounts include the operations of the parent company Ossur hf. and all subsidiaries.

The Company's operating currency is the US dollar, and as of 1 January 2002 all financial reporting systems and financial statements of Ossur are denominated in US dollars. The decision to report in US dollars was based on the fact that the majority of income, expense and liabilities of the Company were in US dollars. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) since Q3 2003. The adoption did not materially affect individual balances in the opening balance sheet. The adoption mainly impacts the presentation and note disclosures. All amounts in this report are in US dollars.

No changes have been on the operations of Ossur Consolidation since the six months financial statements were published and the acquisition of Royce Medical announced on 28 July. Though it should be mentioned, that a non-binding Indication of Interest letter has been signed between Ossur hf. and a European orthopaedics company concerning the possible acquisition by Ossur of the company for an estimated enterprise value of approximately USD 20 million. The annual sales of the target are estimated to amount to approximately USD 15 million for the year 2005 and EBITDA margin to be around 20% of sales. The acquisition is among other things subject to the findings of a due diligence process. The negotiations are in line with Ossur hf.'s external growth strategy which the company will continue to pursue.

FINANCIAL GOALS

The Company's strategy is to become a top tier player within the orthopaedics and prosthetics industry. Ossur intends to achieve top results and therefore the Board of Directors has established a clear set of ambitious objectives. One of the Company's financial goals is to grow by high single digit or double digit number, by combining this objective with interesting business opportunities Ossur will be in a stronger position to realize its goal. The financial goals that were set by Ossur in 2001 were:

- Increase earnings per share by 15% on average. Ossur is committed to achieving returns for shareholders, permitting steady growth and increased shareholder value.
- Expand the Company's business to $180 million in sales by the end of 2006. In light of its high gross margin, Ossur will empha-

size an aggressive growth strategy, building on its current sales and marketing network to expand its activities into new markets and attract new customers.
– Ensure profitable operation by an EBITDA margin of 20%. An important element in the Company's growth strategy is to grow profitably and secure sufficient earnings from the business operations to contribute to steady growth in net profit and thereby earnings per share.

The Company's management has set these quite ambitious goals and has shown the capacity to reach and even exceed them. The goal of increasing EPS by 15% each year on average has been exceeded as CAGR of EPS for the period 2001-2004 was 34%. The goal to achieve $180 million in sales by the end of 2006 has clearly been achieved a year and a half before the deadline as in mid-2005 the total 12 month sales of the combined companies, Ossur and Royce Medical, amounted to $196 million. The last financial goal of 20% EBITDA margin was reached both in 2004 and the first half of 2005 with 20% EBITDA margin. The Board of Directors is re-evaluating the Company's objectives which will set the line for the coming years.

CONSOLIDATED PROFIT AND LOSS STATEMENT

Development of key line items

The second quarter of 2005 was the best quarter in Ossur's history. Total sales amounted to $35.4 million, which brought 2005 half-year sales up to $66.6 million. The EBITDA margin amounted to 20%, which is in line with Ossur's financial goals. For the six months ending 30 June 2005 sales growth was positive in all major markets. The favourable results can be attributed to successful operation in all market regions. The sales growth in US prosthetics sales proved to be significant factor as it amounted to 16% between years. Sales of orthotic products were also more successful in the US market than in previous periods.

Over recent years Ossur has demonstrated stable growth in sales. 2004 sales amounted to $124.4 million, corresponding to an increase of 32% compared to full year sales in 2003. The financial year 2004 was the first full year where the operations of Generation II were included in the consolidated accounts. Generation II sales were included in the consolidated accounts since fourth quarter of 2003. Based on continuous operations, where Generation II sales are included for the whole year 2003 (where discontinued units have also been written out), the sales increase between 2003 and 2004 amounted to 8% when measured in local currencies.

Gross profit has improved from 59% in 2002, to 60% for both 2004 and the first half year of 2005. Ossur has focused on gaining greater control over processes relating to production and utilization of production facilities. These efforts are also reflected in a higher gross margin and higher asset turnover.

Operating expenses have in general remained stable relative to total sales. R&D expenses are the exception as they have decreased as a percentage of sales from 8% and 10% for 2002 and 2003 respectively, to amounting to 7% for the full year 2004 and first half of 2005. Ossur aims to spend 6-8% of total revenue on R&D; hence the current level of spending is in line with the Company's objectives. All R&D costs are expensed in the income statement. In fact the R&D expenses for 2003 were unusually high as extensive projects such as the Rheo KneeTM and the development of Ossur's first orthopaedics products were carried out in 2003.

Any comparison between operations in 2004 and 2003 must take into account the fact that operating expenses in 2003 included extraordinary expenses resulting from litigation, severance arrangements and restructuring costs following the acquisition of Generation II amounting to $4.3 million (included in general and administrative expenses in 2003), which corresponds to over 4% of sales in 2003. There were no significant extraordinary expenses in 2004. Furthermore, a note must be taken of the fact that the operations of Generation II were included in the consolidated accounts over the entire year of 2004, but only for the last quarter in 2003.

Ossur was refinanced in 2003. Net interest expenses are primarily expenses related to the servicing of a fixed-interest bullet loan in US dollars and euros, and a variable-interest revolving credit facility in US dollars. The interest on the fixed-interest loans is 3.99% for the US dollar tranche and 4.38% for the euro tranche.

Ossur has not paid any dividends to its shareholders, nor does the Company intend to do so in the near future. Loan agreements with debt providers furthermore limit the extent of dividend payments.

Profitability

Since 2002 profitability has been good in all years except for 2003. In 2004 net profit amounted to $15.2 million compared to $4.7 million in 2003. The reasons for low profitability in 2003 have to a large extent been listed above, as numerous one time items affected operations for this particular year.

With respect to margins, Ossur is performing in line with current financial goals for all years except for 2003. Gross margin has improved slightly and EBITDA margins are on target.

In 2004 return on average equity amounted to 31%, a considerable increase from the 11% in 2003. The return on average equity for 2004 has improved compared to the 29% in 2002. The marginal improvements in returns on equity are driven by higher leverage.

CONSOLIDATED BALANCE SHEET

At 30 June 2005 total assets amounted to $108.4 million, which is effectively the same level of assets as at the end of 2004. Since 2002 total assets have increased substantially, mainly as a result of the Generation II acquisition.

In general Ossur's balance sheet is clearly marked by the acquisitive expansion that the Company has been involved in during recent years. The goodwill on the Company's balance sheet was created when Ossur acquired Generation II in October 2003. For the financial year 2004 goodwill was tested for impairment and no impairment was conducted.

Deferred tax asset on the Company's balance sheet is noteworthy. This asset was created when Ossur acquired Flex-Foot Inc. through a US based subsidiary in 2000. In preparation for the consolidated accounts the goodwill that materialized in connection with the Flex-Foot acquisition was fully amortized in 2000, which was in line with Icelandic law at the time. By treating goodwill in this way, Ossur could capitalize a tax asset, since for tax purposes the goodwill can be amortized and thus provide tax deductions for US entities.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

P/L CONSOLIDATED (USD '000)	2002	2003	2004	2004 JAN–JUNE	2005 JAN–JUNE
Net sales	81,284	94,467	124,399	62,443	66,572
Cost of goods sold	-33,433	-40,232	-49,555	-24,728	-26,364
Gross Profit	**47,851**	**54,235**	**74,844**	**37,715**	**40,208**
Other Income (expense)	1,030	266	1,049	332	586
Sales and marketing expenses	-16,927	-21,238	-26,772	-13,696	-13,995
Research and development expenses	-7,103	-9,592	-9,066	-4,476	-5,202
General and administrative expenses	-13,350	-17,559	-19,681	-9,707	-10,696
Profit from Operations (EBIT)	**11,501**	**6,112**	**20,374**	**10,168**	**10,901**
Interest income/(expenses)	336	-407	-1,232	-974	-682
Profit before tax	**11,837**	**5,705**	**19,142**	**9,194**	**10,219**
Income tax	-1,781	-1,044	-3,915	-2,071	-2,431
Net profit for the year	**10,056**	**4,661**	**15,227**	**7,123**	**7,788**
EBITDA	**14,310**	**9,428**	**25,045**	**12,477**	**13,291**
Earnings Per Share (US Cent)	3.12	1.45	4.80		
Dividends Per Share	0	0	0		
Gross Margin	59%	57%	60%	60%	60%
EBITDA Margin	18%	10%	20%	20%	20%
EBIT Margin	14%	6%	16%	16%	16%
Year on Year growth in Sales	19%	16%	32%		
Year on Year growth in EBITDA	10%	-34%	166%		
Year on Year growth in EBIT	6%	-47%	233%		
Year on Year growth in Net Income	16%	-54%	227%		
Turnover	1.3	1.1	1.2		
Profit Margin	12%	5%	12%		
Assets/Equity	1.8	2.1	2.1		
Return on Equity	29%	11%	31%		

In the table above, earnings per share are based on the weighted average number of shares outstanding in each year.

Most of the real estates in which Ossur has operations is operated under rental agreements. Ossur only owns buildings situated in California USA. These buildings are of a total size 15,000 sq.ft. and book value of $2.6 million as of 30 June 2005.

The Company's liquidity situation is favourable, as both the quick ratio and current ratio remain at prudent levels.

As of 30 June 2005 three of Ossur hf.'s subsidiaries account each for over 10% of consolidated net profit and/or each book value represents over 10% of consolidated capital. These are Ossur Holding Inc. representing North America, Ossur Holding AB representing the Nordic countries and Ossur Europe BV representing Europe. Ossur Holding Inc.'s issued share capital amounts to $50,000 and book value of these shares is -$10,193,077. The book value of Ossur Holding Inc. is negative because of amortization of goodwill. Ossur Holding AB's issued share capital amounts to SEK 100,000 ($12,792) and book value of these shares is $2,260,339. Ossur Europe BV's issued share capital amounts to EUR 18,000 ($21,695) and the book value of these shares is $4,400,828. The above companies trade with each other and with the parent company. There are no extraordinary loan agreements between them or the parent company. All share capital in the subsidiaries has been paid in full and the subsidiaries have not paid dividends to the parent company.

CONSOLIDATED CASH FLOW STATEMENT

Operating cash flows for the consolidated business portrays a very cash generative operation. At year end 2004 cash generated from operations amounted to $19.2 million, which is a 34% improvement compared with cash generated in 2003. Cash flows for the first half of 2005 are in line with cash generation in 2004.

Cash flows relating to investment activities include large one time items such as the acquisitions of Generation II in 2003. Recent one time events include the sale of Ossur's Icelandic retailing operations. About $3.4 million have been invested in property plant and equipment this year. The majority of these investments have been directed at the operation in Iceland and North America. The chart below provides an overview of investments in property, plant and equipment on a year to date basis.

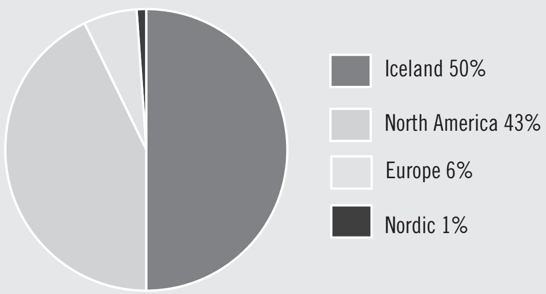
Cash flows from investing activities provide an overview of changes in Ossur's debt structure during recent years. Most importantly Ossur assumed new debt amounting to $32.0 million in 2003 in connection with the Generation II acquisition.

At the annual general meeting of the Company in February 2004 a decision was made to reduce Ossur's share capital by 10 million shares. The share capital was reduced from 328,441,000 shares to 318,441,000 shares. The Company bought 6,406,000 of own shares in 2004. The shares were bought at market value at an average price of just over ISK 78 per share.

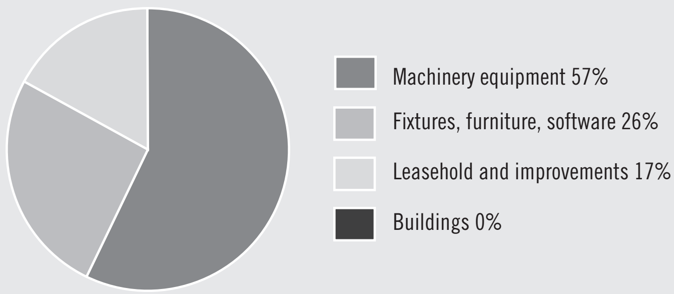
To meet stock option obligations, 2,233,060 shares were delivered at an average price of ISK 21.14 per share. At year end 2004, the number of own shares was 4,469,051. No additional shares have been acquired in 2005.

Investments

By Location



By Category



CONSOLIDATED BALANCE SHEET

BALANCE SHEET CONSOLIDATED (USD '000)	2002 31 DEC	2003 31 DEC	2004 31 DEC	2005 30 JUNE
FIXED ASSETS				
Property Plant and Equipment	10,220	14,950	15,994	17,089
Goodwill	-	23,599	25,095	24,649
Other intangible assets	751	5,569	5,375	4,703
Acquisition of subsidiary	-	-	-	1,154
Investmetns held to maturity	523	448	824	747
Availible for sale investments	410	476	411	344
Deferred tax asset	20,932	20,529	20,245	17,833
Total Fixed assets	**32,836**	**65,571**	**67,944**	**66,519**
CURRENT ASSETS				
Inventories	12,358	12,415	15,105	14,211
Accounts receivable	12,403	14,965	16,026	18,956
Other receivables	1,562	4,586	5,543	5,157
Marketable securities	1,190	262	-	-
Cash	11,076	4,327	4,297	3,590
Total Current Assets	**38,589**	**36,555**	**40,971**	**41,914**
Total Assets	**71,425**	**102,126**	**108,915**	**108,433**
STOCKHOLDERS EQUITY				
Stockholders' equity				
Share Capital	3,123	3,083	3,042	3,044
Capital reserves	26,903	24,412	17,747	17,975
Translation reserve	368	2,448	4,636	2,653
Accumulated profits	9,467	14,068	29,295	37,083
	39,861	**44,011**	**54,720**	**60,755**
LIABILITIES				
Long-term liabilities				
Loans form credit institutions	11,528	34,892	32,187	26,960
Obligations under financial lease	1,016	767	240	120
Other long-term liabilities	1,341	482	332	143
Deferred tax liabilities	742	2,206	2,863	2,423
	14,627	38,347	35,622	29,646
Current liabilities				
Long-term liabilities - due within one year	5,132	3,314	2,556	2,280
Accounts payable	2,927	4,263	3,417	3,648
Tax liabilities	1,280	606	2,425	2,092
Other current liabilities	7,288	9,872	9,559	9,062
Provisions	310	1,713	616	950
	16,937	19,768	18,573	18,032
Total Stockholders Equity and Liabilities	**71,425**	**102,126**	**108,915**	**108,433**
Equity Ratio	56%	43%	50%	56%
Quick Ratio	1.5	1.2	1.4	1.5
Current Ratio	2.3	1.8	2.2	2.3

At half-year 2005 total equity amounted to $60.8 million, which translates into an equity ratio of 56%. Since 2002 the relative level of equity versus total assets has remained quite stable from 43% low to 56% high.

CONSOLIDATED CASH FLOW STATEMENTS

Cash Flow Statement Consolidated (USD '000)	2002	2003	2004	2005 JAN–JUNE
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit from operations	11,501	6,112	20,374	10,901
Depreciation and amortization	2,809	3,316	4,671	2,390
Loss / (gain) on disposal of assets	25	9	-433	-460
Changes in current assets and liabilities	-2,260	4,839	-5,439	-3,328
Cash provided from operations	**12,075**	**14,276**	**19,173**	**9,503**
Interest received	138	195	76	37
Interest paid	-890	-1,416	-1,500	-771
Taxes paid	-820	-2,672	-1,149	-1,076
Net cash provided by operating activities	**10,503**	**10,383**	**16,600**	**7,693**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of fixed assets	-3,572	-4,686	-6,609	-3,403
Proceeds from sale of fixed assets	86	196	813	98
Acquisition of subsidiaries	-	-29,867	-911	-1,154
Sale of Domestic Shoeshop	-	-	-	549
Sale of subsidiaries	174	-	1,572	-
Additions in loans and receivables	-	-128	-362	-10
Installments of loans and receivables	340	261	101	35
Purchases of available for sale investments	-	-5	-	-
Proceeds from sale of available for sale investments	-	11	117	5
Purchases of trading investments	-6,717	-4,099	-137	-
Proceeds from sale of trading investments	6,070	5,152	408	-
Net cash used in investing activities	**-3,619**	**-33,165**	**-5,008**	**-3,880**
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowing of long-term liabilities	5,227	32,000	20,620	5,300
Repayments of long-term liabilities	-5,549	-13,305	-25,346	-9,916
Purchases of treasury stock	-2,961	-3,061	-7,255	-
Sales of treasury stock	1,589	-	-	-
Exercised share options	52	61	340	230
Net cash used in financing activities	**-1,642**	**15,695**	**-11,641**	**-4,386**
Net change in cash and cash equivalents	**5,242**	**-7,087**	**-49**	**-573**
Effects of foreign exchange adjustments	290	338	19	-134
Cash and cash equivalents at beginning of year	5,544	11,076	4,327	4,297
Cash and cash equivalents at end of year	**11,076**	**4,327**	**4,297**	**3,590**

PRO FORMA ACCOUNTS FOR OSSUR AND ROYCE MEDICAL HOLDINGS 01 JULY 2004 – 30 JUNE 2005

For the LTM period from the 1 July 2004 to 30 June 2005 net sales for Ossur Consolidation amounted to $128.5 million. Royce Medical's net sales for the same period amounted to $67.8 million. Therefore the combined sales for Ossur and Royce Medical amounted to $196.3 million.

For Ossur Consolidation, EBITDA amounted to $43.7 million which translates into EBITDA margin of 22.3%. The addition of Royce Medical to Ossur Consolidation has a favourable effect on margins, as both gross margin and EBITDA margins are higher for the combined entity than for Ossur pre acquisition.

OSSUR AND ROYCE MEDICAL 1 JULY 2004 – 30 JUNE 2005

USD '000	OSSUR LTM	%	ROYCE LTM	%	PRO FORMA	%
Net sales	**128,528**	**100.0%**	**67,803**	**100.0%**	**196,331**	**100.0%**
Cost of goods sold	-51,191	-39.8%	-25,994	-38.3%	-77,185	-39.3%
Gross profit	**77,337**	**60.2%**	**41,809**	**61.7%**	**119,146**	**60.7%**
Other income / (expenses)	1,303	1.0%	-51	-0.1%	1,252	0.6%
Sales and marketing expenses	-27,071	-21.1%	-14,483	-21.4%	-41,554	-21.2%
Research and development expenses	-9,792	-7.6%	-2,033	-3.0%	-11,825	-6.0%
General and administrative expenses	-20,670	-16.1%	-8,509	-12.5%	-29,179	-14.9%
Profit from operations	**21,107**	**16.4%**	**16,733**	**24.7%**	**37,840**	**19.3%**
EBITDA	25,859	20.1%	17,840	26.3%	43,699	22.3%

FINANCING OF THE ACQUISITION OF ROYCE MEDICAL

In connection with the acquisition of Royce Medical the Ossur Consolidation was refinanced. Facility agreement between Ossur and Kaupthing Bank hf. provided Ossur with $313 million. In the following table is an overview of the uses of the funds.

Noteworthy is the credit line and the excess funding of total $58 million The $58 million is partly intended to finance further external growth. The following table provides an overview over the structure of the financing.

The bridge loan, amounting to $80 million, will be replaced by the proceeds from the share offering.

USES OF FUNDS	($MILLION)
Royce Medical enterprise value	216
Transactional cost	9
Ossur debt refinance	30
Credit line excess funding	58
Total financing	313

LOAN	AMOUNT (USD '000)	DURATION	LIBOR TERMS
Bridge loan (for share capital increase)	80	up to 6 months	+2.50%
Term loan	80	5 years	+1.50%
Bullet loan	60	6 years	+1.75%
Bullet loan	60	7 years	+1.75%
Credit line facility	30	5 years	+1.50%
Guarantee facility	3	5 years	
Total financing	**313**		

APPENDIX A
Articles of Association for Össur H/F

19. AUGUST 2005

1. COMPANY NAME, DOMICILE AND OBJECT

1.01 The name of the Company is Össur hf.

1.02 The Company is a limited liability Company.

1.03 The domicile of the Company is Grjótháls 5. Reykjavík.

1.04 The object of the company is the development and sale of prosthetic devices and components in the field of orthopaedics and rehabilitation as well as various types of services to the health professions and patients. The operation of workshops for prosthetic devices, the development and sale of products for other uses, investment and participation in other companies and other related business.

2. SHARE CAPITAL OF THE COMPANY

Share Capital - Shares

2.01 The share capital of the Company amounts to ISK 318.441.000- three hundred eighteen million four hundred and forty one thousand Icelandic krónur - which has been paid in full. (Amended at Board meetings on 28 March 2000, 30 June 2000, 27 October 2000, 4 December 2000 and on Annual meeting February 13 2004 when the company own share capital was reduced).

The Board of Directors of the Company is authorised to increase the share capital of the Company in stages over five years by an amount of up to ISK 77,100,000 – seventy-seven million and one hundred thousand Icelandic krónur – in nominal value, as follows:

A. By an amount of up to ISK 73,000,000 – seventy-three million Icelandic krónur – in nominal value, to be sold with shareholders' pre-emptive rights pursuant to the Company's Articles of Association and Chapter V of the Companies Act No. 2/1995. The Board of Directors will decide the offering price of these shares and rules of the sale at each time, deadlines for subscription and deadlines for payment.

B. By an amount of up to ISK 4,100,000 – four million and one hundred thousand Icelandic krónur – in nominal value, through the sale of new shares without the application of the pre-emptive rights provisions of Article 34 of the of the Companies Act No. 2/1995. The Board of Directors will decide the offering price of these shares and rules of the sale at each time, deadlines for subscription and deadlines for payment.

(So amended at a shareholders' meeting on 19. August 2005. Paragraph 2 replaces paragraphs 2, 3, 4 and 5)

The share capital may be divided into shares as convenient. One share certificate may be issued for the total share capital of each shareholder in the Company; the same applies to increases in share capital; see Section 2.02.

The Company is under obligation to divide its shares into smaller units on the submission of a reasoned request to this effect, e.g. upon the settlement of an estate.

Increase in Share Capital – Pre-Emptive Rights

2.02 Only shareholders' meetings may decide on an increase in the share capital of the Company, whether through subscription to new shares or through the issue of bonus shares.

The increase shall follow the rules set by a shareholders' meeting each time. Shareholders have pre-emptive rights to all new share capital in proportion to their registered holdings; deviation from this provision is permitted, however, cf. Paragraph 3. Article 34. of the Act on Limited Liability Companies, if a shareholders' meeting so approves with 2/3 of the votes in the Company.

Share Certificates – Share Ledger

2.03 When a shareholder has paid his share in full, he shall be delivered a share certificate issued and signed by the Board of Directors of the Company, which entitles him to all rights provided for in the Company's Articles of Association.

2.04 The Company's share certificates shall be consecutively numbered, and issued in the name of the holder. The Share certificates shall specify the following:

a) The address and Id. No. of the shareholder and the Company.
b) The amount of the share, the number of the certificate and the date of issue.
c) Any restrictions on the rights of shareholders to dispose of their share certificates.
d) Authorisation to invalidate a share without a prior court decision.

The Board of Directors of the Company shall maintain a share ledger, which shall specify the following:

a) Date of issue of the share certificate.
b) The nominal value and number of each share certificate;
c) To whom the share was issued, his/her address and Id. No. Also, the date of the transfer and date of registration shall be entered.
d) Any changes which may take place in the relationship between the Company and the owner of the share certificate, e.g. if the certificate is invalidated with or without a court decision.

For the Company, the Share Ledger shall be regarded as full proof of title to any shares in the Company, and dividends at any time, as well as all notices, shall be sent to the party registered at any time as the owner of the shares in question in the Share Ledger of the Company. The Company assumes no responsibility for payments or notices being lost owing to failure to notify the Company of changes of address.

In the event of the loss of a share certificate, the owner shall receive a new certificate as soon as the Board of Directors of the Company has received proof that a court invalidation has been obtained for the lost certificate or that it has been invalidated by the publication of a notice in the Official Gazette, which procedure shall be entirely at the owner's expense. Should a certificate be damaged, but there is no mistake as to the number of the certificate or its substance, the owner may be issued a new certificate at his own cost on return of the damaged certificate.

Shares may be issued electronically, in accordance with the decision of the Board of Directors of the Company pursuant to the Act on Electronic Registration of Securities.

Ban on granting loans

2.05 The Company shall not grant loans against shares in the Company.

The company shall not grant any loans to shareholders, Board members or the Chief Executive Officer (CEO) of the Company, nor provide them with guarantees. The provisions of this Article do not, however, apply to normal business loans.

Sales of Shares

2.06 There are no restrictions on the disposal of shares in the Company.

2.07 Each shareholder shall inform the Company of his/her address and all notices of Company matters may be sent to that address. In the event that shareholders neglect to provide information of such address, they shall have neither any claim to receive any notice that the Board of Directors may decide to send to shareholders, unless the Board of Directors has knowledge of their address, nor any claim to remitment of dividend payments. However, shareholders may collect their dividends at the Company office within four years after payment was due.

2.08 Each shareholder is bound, without specific undertaking on their part, to abide by the Articles of the Company in their present form or as lawfully amended at any time. However, shareholders may not be obligated on the basis of the Company Articles or amendments thereto to increase their holdings in the Company or to sell their shares or suffer redemption of their shares. Shareholders shall not be liable for the commitments of the Company beyond their share in the Company unless they assume such commitments under a separate legal instrument. This provision cannot be amended nor deleted by any resolution of a shareholders' meeting.

No privileges are attached to any shares in the Company.

3. ORGANISATIONAL STRUCTURE

3.01 The Company is managed by:

1. Shareholders' Meetings.
2. The Board of Directors of the Company.
3. The Chief Executive Officer

4. SHAREHOLDERS' MEETINGS

4.01 The supreme authority in all affairs of the Company, within the limits established by these Articles and statutory law, is in the hands of lawful shareholders' meetings.

Proxies

A shareholder may appoint a proxy to attend a shareholders' meeting on his behalf. The proxy must submit a written and dated letter of proxy.

Letters of proxy shall not be valid for longer than 5 year from their date of issue. A letter of proxy cannot be revoked with effect for the Company after it has been submitted on delivery of the documents of the meeting, or after the shareholders' meeting has been called to order, whichever occurs first.

Shareholders' Meetings

A shareholders' meeting is valid, regardless of attendance, if the meeting has been legally convened.

Annual General Meeting

4.02 The Annual General Meeting shall be held before the end of June each year.

The Annual General Meeting shall be called in the same manner as other shareholders' meetings.

The Agenda of the Annual General Meeting

The Agenda of the Annual General Meeting shall include the following:

1. The report of the Board of Directors on the activities of the Company in the preceding year;
2. Confirmation of the annual accounts of the Company for the preceding year.
3. Decision on remuneration of the Members of the Board of Directors.
4. Decisions on the disposal of the profit or losses of the Company over the accounting year.
5. Elections to the Board of Directors pursuant to Section 5.01;
6. Election of an auditor pursuant to Section 7.02;
7. Any other business, lawfully submitted or approved for discussion by the Meeting.

In the event that shareholders controlling at least 1/3 of the shares so request in writing at the Annual General Meeting, decisions on items 2 and 4 shall be postponed to an adjourned Annual General Meeting, which shall be held at the earliest one month and at the latest two months later. Further postponement cannot be requested.

Convening of Shareholders' Meetings

4.03 Shareholders' meetings shall be convened by a notice in the media, by post, telegram, facsimile, or e-mail .

Shareholders' meetings shall be convened with at least two weeks' notice.

The notice of the meeting shall state the business of the meeting.

Rules of Order

Shareholders' meetings shall be convened at the discretion of the Board of Directors, by a resolution of a meeting, or if the elected auditors or shareholders holding a minimum of 1/10 of the shares of the Company request a meeting and state the business of the meeting.

Each shareholder shall be entitled to have a specific item of business included on the agenda of shareholders' meetings, provided that such shareholder submits a written request to this effect to the Board of Directors of the Company with sufficient advance notice for the item to be included on the agenda.

Chairman of the Meeting

4.04 A chairman, elected at the meeting, shall preside over shareholders' meetings and appoint a secretary with the approval of the meeting. The Chairman shall resolve all issues relating to the validity of the meeting pursuant to these Articles of Association, decide the form of discussion, the treatment of issues at the meeting and voting procedures.

Minutes

Minutes shall be kept of the meeting and all decisions of the meeting and the results of all polls shall be entered along with a concise account of proceedings. The Chairman and the secretary shall sign the minutes after they have been read and approved. The recorded minutes shall constitute conclusive proof of the proceedings of each shareholders' meeting.

The Annual General Meeting may establish special rules of order for shareholders' meetings.

Voting

4.05 At shareholders' meetings, each króna of share capital shall carry one vote.

Decisions at shareholders' meetings shall be taken by majority vote unless otherwise provided in these Articles or statutory law. Proposals are dismissed if they receive an equality of votes. In the event of an equality of votes, elections shall be decided by casting lots.

The consent of all shareholders is required to conclude the issues described in Article 94 of Act No.2/1995 on Limited Liability Companies.

Voting shall be by ballot if any attendant so requests.

Right to Attend

4.06 Shareholders, shareholders' proxies, Company auditors and the CEO of the Company, even if he is not a shareholder in the Company, are entitled to attend shareholders' meetings. The Board of Directors may also invite experts to attend specific meetings, if their opinion or assistance is required.

A shareholder must be registered in the share ledger of the Company at least eight days before the meeting to acquire voting rights. The attendance and voting rights of those present at a meeting shall be ascertained at the beginning of each meeting.

Agenda - documents of the meeting

4.07 The final agenda, as well as all major proposals to be voted on at the shareholders' meetings, shall be laid open to all shareholders for inspection at the Company's office no later than seven days before the meeting.

Items which are not included on the agenda of a shareholders' meeting may not be brought to a conclusion at the meeting except with the consent of all the shareholders in the Company, but resolutions may be passed on such matters for the purpose of providing guidance to the Board of Directors.

Lawfully submitted proposals for amendments may be placed before the meeting itself even if they have not been laid open for inspection by shareholders.

The Company's accounts along with the Auditor's comments, the response from the Board of Directors and the Auditor's proposed conclusion shall be laid open for inspection by shareholders at the Company's offices no later than seven days before the Annual General Meeting.

5. THE BOARD OF DIRECTORS OF THE COMPANY

5.01 The Board of Directors of the Company shall be composed of 7 (seven) members elected at the Annual General Meeting. (So amended at the Board Meeting of 21. February 2003)

Elections to the Board shall always be by ballot if the number of nominations exceeds the number of Members to be elected.

If shareholders holding at least 1/10 of the share capital should so request, the Members of the Board shall be elected by proportional or multiple voting. Requests to this effect shall be delivered to the Board of Directors at least five days prior to the meeting.

Allocation of Tasks in the Board of Directors

5.02 The Board shall elect a Chairman from among its Members and allocate tasks among its members. The Board of Directors shall establish its own rules of procedure regarding the performance of its duties.

Calling of Meetings of the Board of Directors

The Chairman shall call meetings of the Board and preside at Board meetings. The Chairman shall ensure that all Members of the Board are notified. Meetings shall be held at the discretion of the Chairman or when the CEO or any Member of the Board requests such a meeting.

Validity of Meetings of the Board of Directors

The presence of the majority of the members of the Board constitutes a quorum. Important decisions, however, may not be taken unless all members of the Board have had the opportunity, if possible, of discussing the matter.

A simple majority shall decide issues, unless otherwise provided in these Articles of Association or other lawful instructions. In the event of an equality of votes, the Chairman of the Board shall cast the deciding vote.

Members of the Board shall keep minutes of proceedings at meetings of the Board and confirm such minutes with their signatures.

5.03 The Board of Directors of the Company is the supreme authority in the affairs of the Company between shareholders' meetings.

The principal duties of the Board of Directors are the following:

1. To appoint a CEO and decide on his salary and the terms of his employment, establish his terms of reference and supervise his work.
2. To supervise continuously and precisely all aspects of the Company's operations and ensure that the Company's organisation and activities are always in good and proper order. In particular, the Board of Directors shall ensure adequate supervision of the accounts and disposal of the Company's property.
3. To represent the Company before the courts and government authorities.
4. To resolve differences of opinion as may arise between the CEO and other employees.
5. To decide who shall be authorised to bind the Company.
6. To resolve other issues, as the Board deems necessary at any given time.

5.04 The Board of Directors is responsible for the affairs of the Company between shareholders' meetings and their resolutions and contracts are binding for the Company. The signatures of a majority of the Members of the Board are required to bind the Company. Important decisions, such as the purchase or sale of property, may not be taken unless all Members of the Board have had the opportunity to discuss the matter. The same applies to major borrowings requiring mortgaging the Company's property.

6. THE CHIEF EXECUTIVE OFFICER

6.01 The Board of Directors shall appoint a Chief Executive Officer to manage the Company's daily operation.

The CEO of the Company is responsible for the day-to-day operation of the Company, pursuant to the rules established by the Board of Directors, or in accordance with the Company's Articles. The day-to-day operations do not include measures which are unusual or extraordinary. The CEO shall ensure that the accounts of the Company conform to the law and accepted practices and that the disposal of the property of the Company is secure.

6.02 The CEO of the Company is under obligation to follow all instructions of the Board of Directors. He/she is required to provide any information that may be requested by the Company's Auditors. A member of the Board of Directors may be appointed CEO.

7. ACCOUNTS AND AUDITING

7.01 The fiscal year of the Company shall be the calendar year. Each fiscal year, the annual accounts of the Company shall be prepared, containing a profit and loss account, balance sheet, cash flow statement and notes.

7.02 One auditor, which shall be an auditing firm, shall be elected at the Annual General Meeting for a term of one year. The auditor, however, shall not be a member of the Board of Directors, CEO or employee of the Company.

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

The auditor shall have completed the audit of the Company's annual accounts no later than one month before the Annual General Meeting. He shall then send the audited accounts to the Board of Directors of the Company together with his comments.

No later than one week before the Annual General Meeting, the Board of Directors of the Company shall have prepared their responses to the Auditor's comments and the responses and comments shall be laid open for inspection by shareholders, together with the annual accounts, at least one week before the Meeting.

7.03 The annual accounts shall clearly and in detail state the income and costs of the Company, its assets and liabilities. Charges shall include reasonable depreciation of real estate and liquid assets of the Company.

8. TREASURY SHARES OF THE COMPANY

8.01 The Company may own up to 10% - ten per cent - of its own shares. The Company may acquire shares only pursuant to authorisation granted to the Board of Directors by a shareholders' meeting. Authorisation granted to the Board of Directors to buy shares in the Company shall not be effective for longer than 18 months at a time. No voting rights are attached to treasury shares of the Company.

9. AMENDMENTS TO THE ARTICLES OF THE COMPANY

9.01 Amendments to the Articles of Association of the Company, other than those provided for in the Act on Limited Liability Companies, shall only be made at a valid shareholders' meeting. A decision to amend the Articles of Association is valid only if it has the support of at least 2/3 of the cast votes and the support of shareholders controlling at least 2/3 of the share capital represented at the meeting.

Proposals to reduce the share capital of the Company shall be treated as amendments to the Articles.

However, the provisions of these Articles regarding voting rights of shareholders and equality among them may not be amended except with the consent of 9/10 – nine tenths – of all votes, cf. Article 94 of Act No. 2/1995 on Limited Liability Companies.

10. DISSOLUTION OF THE COMPANY

10.01 The dissolution of the Company shall be governed by the provisions of Chapter XIII of Act No. 2/1995 on Limited Liability Companies

he same shall apply to any type of merger or joining of the Company with other companies, and to the sale of all of its assets. The meeting that has made a valid decision to dissolve or liquidate the Company shall also decide on the disposal of assets and the payments of debts, cf. Chapter XIII of Act No. 2/1995 on Limited Liability Companies.

11. FURTHER PROVISIONS

11.01 Matters on which these Articles provide no directions shall be governed by the provisions of Act No. 2/1995 on Limited Liability Companies.

(Intermediate headings within specific sections do not form a part of these Articles of Association)
These Articles of Association were approved at a Shareholders' meeting on 2 November 1995

THE FOLLOWING SHAREHOLDERS' MEETINGS HAVE APPROVED AMENDMENTS TO THESE ARTICLES OF ASSOCIATION:

1) Annual General Meeting 26. July 1996
2) Annual General Meeting 9 April 1999
3) Shareholders' Meeting 5. July 1999
4) Annual General Meeting 24. March 2000
5) Shareholders' Meeting 4 December 2000
6) Shareholders' Meeting 21. February 2003
7) Annual General Meeting 13 February 2004. Own capital share reduced 10.000.000
8) Shareholders' Meeting 19. August 2005. New paragraph 2 in section 2.01. Old authorisations as described in paragraphs 2.,3.,4. and 5 deleted.

ALSO, THE BOARD OF DIRECTORS HAS MADE THE FOLLOWING AMENDMENTS TO THE ARTICLES:

1) 22 July 1999, when the Board partially exercised its authorisation pursuant to Paragraph 2 of Section 2.01 to increase the share capital of the Company by ISK 13,937,460 and partially exercised its authorisation pursuant to Paragraph 3 of Section 2.01, by ISK 38,000,000.
2) 28. March 2000 when the Board exercised the authorisation in item A in Paragraph 4 of Section 2.01 on an increase in share capital by ISK 60,000,000.
3) 30 June 2000 when the Board exercised a part of the authorisation provided for in Paragraph 2 of Section 2.10 to increase the share capital of the Company
4) 27. October 2000 when the Board exercised a part of the authorisation provided for in Paragraph 3 of Section 2.01 to increase the share capital of the Company.
5) 4 December 2000 the share capital was increased by ISK 46,291,460.

Reykjavík, 19 August 2005

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Jón Sigurðsson
Chief Executive Officer with Powers of Procuration

APPENDIX B
Ossur hf. – Interim Accounts for six months ended 30 June 2005

FINANCIAL RATIOS

CONSOLIDATED STATEMENT

		YTD 2005	YTD 2004	2004	2003	2002	2001
GROWTH							
Net sales	USD '000	66,572	62,443	124,399	94,467	81,284	68,380
EBITDA	USD '000	13,291	12,477	25,045	9,428	14,310	12,973
Profit from operations	USD '000	10,901	10,168	20,374	6,112	11,501	10,889
Net income	USD '000	7,788	7,123	15,227	4,661	10,056	8,632
Total assets	USD '000	108,433	103,515	108,915	102,126	71,425	58,201
OPERATIONAL PERFORMANCE							
Cash provided by operating activities	USD '000	7,693	6,011	16,600	10,383	10,503	10,359
- as ratio to total debt (1)	%	36	24	30	23	36	36
- as ratio to net profit		1.0	0.8	1.1	2.2	1.1	1.2
WORKING CAPITAL FROM OPERATING ACTIVITIES	USD '000	12,095	11,690	23,095	8,774	14,661	10,771
- as ratio to long-term debt and stockh. Equity (1)	%	27	19	27	13	30	27
LIQUIDITY AND SOLVENCY							
Quick ratio		1.5	1.4	1.4	1.2	1.5	1.2
Current ratio		2.3	2.1	2.2	1.9	2.3	1.9
Equity ratio	%	56	48	50	43	56	53
ASSET UTILIZATION AND EFFICIENCY							
Total asset turnover (1)		1.2	1.2	1.2	1.1	1.3	1.3
Grace period granted (1)	Days	44	46	44	47	44	44
PROFITABILITY							
Return on capital (1)	%	20	12	20	9	20	19
Return on common equity (1)	%	29	18	31	11	29	32
Operating profit as ratio to net sales	%	16	16	16	7	14	16
Net income before taxes as ratio to net sales	%	15	15	15	6	15	15
Net income for the period as ratio to net sales	%	12	11	12	5	12	13
MARKET							
Value of stock	USD '000	388,402	302,401	395,514	201,237	219,584	158,492
Price/earnings ratio, (P/E) (1)		24.4	35.7	26.0	43.2	21.8	19.4
Price/book ratio		6.4	6.1	7.2	4.6	5.5	5.2
Number of shares	Millions	318	318	318	328	328	328
Earnings per Share, (EPS) (1)	US Cent	5.04	2.65	4.80	1.45	3.12	2.64
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	5.03	2.64	4.80	1.44	3.10	2.63

Notes
1. Financial ratios for YTD 2004 and YTD 2005 are based on operations for the preceding 12 months.
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2005

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION RESERVES	ACCUMULATED PROFITS	TOTAL
Balance at 1 January 2004	3,083	24,412	2,448	14,068	44,011
Translation difference of shares in foreign companies			2,318		2,318
Net gains / losses not recognised in the income statement	0	0	2,318	0	2,318
Transferred to income due to sale of subsidiaries			(130)		(130)
Purchases of treasury stock	(62)	(7,193)			(7,255)
Exercised share options	16	324			340
Allocation of treasury stock to sellers of subsidiaries	5	204			209
Net profit for the year				15,227	15,227
Balance at 1 January 2005	3,042	17,747	4,636	29,295	54,720
Translation difference of shares in foreign companies			(1,983)		(1,983)
Net gains / losses not recognised in the income statement	0	0	(1,983)	0	(1,983)
Exercised share options	2	228			230
Net profit for the period				7,788	7,788
Balance at 30 June 2005	3,044	17,975	2,653	37,083	60,755

All amounts in thousands of USD

CONFIRMATION BY THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

It is the opinion of the Board of Directors and the President and CEO of Ossur hf. that these Interim Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 June 2005, the operational results for the period 1 January to 30 June 2005, and financial developments during that period.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Interim Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 June 2005 with their signatures.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur for the period 1 january to 30 june 2005 with their signatures.

Reykjavik, 27 July 2005

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson	Bengt Kjell
Thordur Magnusson	Niels Jacobsen
Kristjan T. Ragnarsson	Sigurbjorn Thorkelsson

President and CEO
Jon Sigurdsson

AUDITOR'S REPORT

To the Board of Directors and Shareholders of Ossur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Ossur hf. and it's subsidiaries as of 30 June 2005, and the related Consolidated Statements of Income and Cash Flows for the period then ended. These Consolidated Financial Statements contain Income Statements, Balance Sheets, Statement of Cash Flows, Statement of changes in Equity and Notes to the Financial Statements. These Financial Statements are the responsibility of the Company's management. Our responsibility is to issue a report on these Financial Statements based on our review.

We conducted our review in accordance with generally accepted auditing standards applicable to review engagements. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the Financial Statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying Financial Statements do not give a true and fair view of the financial position of Ossur hf. and it's subsidiaries as of 30 June 2005, of the results of their operations and their cash flows for the period then ended in accordance with International Financial Reporting Standards. Financial Statements of foreign subsidiaries have been reviewed by Deloitte in the countries where they are located.

Reykjavík, 27 July 2005

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

All amounts in thousands of USD

CONSOLIDATED INCOME STATEMENTS FOR THE PERIODS 1.1.–30.6.2005 AND 1.1.–30.6.2004

	NOTES	2005 YTD	2004 YTD	2005 Q2	2004 Q2
NET SALES	4	66,572	62,443	35,422	31,775
Cost of goods sold		(26,364)	(24,728)	(13,863)	(12,595)
GROSS PROFIT		40,208	37,715	21,559	19,180
Other income		586	332	510	307
Sales and marketing expenses		(13,995)	(13,696)	(7,002)	(6,856)
Research and development expenses		(5,202)	(4,476)	(2,767)	(2,156)
General and administrative expenses		(10,696)	(9,707)	(5,800)	(4,853)
PROFIT FROM OPERATIONS		10,901	10,168	6,500	5,622
Financial income/(expenses)	6	(682)	(974)	(271)	(696)
PROFIT BEFORE TAX		10,219	9,194	6,229	4,926
Income tax	24	(2,431)	(2,071)	(1,614)	(1,066)
NET PROFIT FOR THE PERIOD		7,788	7,123	4,615	3,860
EARNINGS PER SHARE	7				
Basic Earnings per Share		2,48	2,24	1,47	1,22
Diluted Earnings per Share		2,47	2,23	1,47	1,21

All amounts in thousands of USD

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	30.6.2005	31.12.2004
FIXED ASSETS			
Property, plant and equipment	8	17,089	15,994
Goodwill	9	24,649	25,095
Other intangible assets	10	4,703	5,375
Acquisition of subsidiary	11	1,154	0
Loans and receivables	12	747	824
Available for sale investments	13	344	411
Deferred tax asset	24	17,833	20,245
		66,519	67,944
CURRENT ASSETS			
Inventories	14	14,211	15,105
Accounts receivable	15	18,956	16,026
Other receivables		5,157	5,543
Bank balances and cash		3,590	4,297
		41,914	40,971
TOTAL ASSETS		108,433	108,915

All amounts in thousands of USD

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EQUITY AND LIABILITIES

	NOTES	30.6.2005	31.12.2004
STOCKHOLDERS' EQUITY			
Share capital	16	3,044	3,042
Capital reserves	17	17,975	17,747
Translation reserves	18	2,653	4,636
Accumulated profits	19	37,083	29,295
		60,755	54,720
LONG-TERM LIABILITES			
Loans from credit institutions	21	26,960	32,187
Obligation under finance leases	22	120	240
Other long-term liabilities	23	143	332
Deferred tax liabilities	24	2,423	2,863
		29,646	35,622
CURRENT LIABILITES			
Long-term liabilities - due within one year	25	2,280	2,556
Accounts payable		3,648	3,417
Tax liabilities		2,092	2,425
Other current liabilities		9,062	9,559
Provisions	26	950	616
		18,032	18,573
TOTAL EQUITY AND LIABILITIES		108,433	108,915

All amounts in thousands of USD

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS 1.1.–30.6.2005 AND 1.1.–30.6.2004

	NOTES	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		10,901	10,168
Depreciation and amortization	8, 10	2,390	2,309
Loss on disposal of assets		(460)	5
Changes in current assets and liabilities		(3,328)	(4,251)
CASH GENERATED BY OPERATIONS		9,503	8,231
Interest received		37	18
Interest paid		(771)	(785)
Taxes paid		(1,076)	(1,453)
NET CASH PROVIDED BY OPERATING ACTIVITIES		7,693	6,011
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	8, 10	(3,403)	(2,660)
Proceeds from sale of fixed assets		98	149
Acquisition of subsidiaries		(1,154)	(911)
Sale of Domestic Shoeshop	27	549	0
Additions in loans and receivables	12	(10)	(108)
Installments of loans and receivables	12	35	6
Proceeds from sale of available for sale investments	13	5	106
Purchases of trading investments		0	(137)
Proceeds from sale of trading investments		0	407
NET CASH USED IN INVESTING ACTIVITIES		(3,880)	(3,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing of long-term liabilities		5,300	6,100
Repayments of long-term liabilities		(9,916)	(9,570)
Purchases of treasury stock		0	(1,002)
Exercised share options	16, 17	230	29
NET CASH USED IN FINANCING ACTIVITIES		(4,386)	(4,443)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(573)	(1,580)
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS		(134)	(83)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,297	4,327
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,590	2,664
OTHER INFORMATION			
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net profit for the period		7,788	7,123
Items not affecting cash		4,307	4,567
WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES		12,095	11,690
Changes in current assets and liabilities		(4,402)	(5,679)
NET CASH PROVIDED BY OPERATING ACTIVITIES		7,693	6,011

All amounts in thousands of USD

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 and Europe, 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 six places during the period: at Ossur North America, Inc., in Aliso Viejo, California, which assembled prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactured prosthetic knees, and at Ossur hf. in Iceland, which manufactured liners, prosthetic feet and components. Orthotic devices were manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada and Generation II in Seattle in the US. The parent company operated 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 four independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada, Ossur Europe, B.V., Netherlands, and Ossur Nordic, AB, Sweden.

2. 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

he 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 period 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, 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 hf. 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 68% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

Almost 68% 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 2-3 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 expensed in the period they incur.

TAXATION

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

Deferred tax 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 period is recognised as an expense, on the following bases:

Buildings	2-5%
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.

Intangible assets 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 period is recognised as expense, on the following bases:

Patent	10-25%
Development cost	20%
Other intangible assets	20%

All research and development costs and costs relating to internally-generated patents incurred during the period 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 (Loans and receivables) 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.

On 1 January 2004, Ossur Consolidated applied the requirement of IFRS 2 Share-based Payments. In accordance with the transition provisions, IFRS will be applied to all options granted after 7 November 2002 that were unvested as of 1 January 2004. All options in Ossur hf. were granted prior to 7 November 2002.

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.

All amounts in thousands of USD

3. QUARTERLY STATEMENTS

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Net sales	35,422	31,150	31,282	30,674	31,775
Cost of goods sold	(13,863)	(12,501)	(12,938)	(11,889)	(12,595)
GROSS PROFIT	21,559	18,649	18,344	18,785	19,180
Other income	510	76	497	220	307
Sales and marketing exp.	(7,002)	(6,993)	(6,830)	(6,246)	(6,856)
Research and develop. exp.	(2,767)	(2,435)	(2,386)	(2,204)	(2,156)
General and admin. exp.	(5,800)	(4,896)	(4,930)	(5,044)	(4,853)
PROFIT FROM OPERATIONS	6,500	4,401	4,695	5,511	5,622
Financial income/(expenses)	(271)	(411)	(468)	210	(696)
PROFIT BEFORE TAX	6,229	3,990	4,227	5,721	4,926
Income tax	(1,614)	(817)	(801)	(1,043)	(1,066)
NET PROFIT FOR THE PERIOD	4,615	3,173	3,426	4,678	3,860
EBITDA	7,758	5,533	5,934	6,634	6,738

4. NET SALES

Net sales are specified as follows according to markets:	YTD 2005	YTD 2004
North America	34,334	33,320
Europe, other	17,901	16,566
Nordic	9,974	8,639
International markets	4,363	3,918
	66,572	62,443

Net sales are specified as follows according to product lines:	YTD 2005	YTD 2004
Prosthetics	51,177	45,928
Orthotics	14,772	15,408
Other products	623	1,107
	66,572	62,443

5. GEOGRAPHICAL SEGMENTS

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

2005	NORTH AMERICA YTD 2005	EUROPE, OTHER YTD 2005	NORDIC YTD 2005	INTERNATIONAL MARKETS YTD 2005	ELIMINATIONS YTD 2005	CONSOLIDATED YTD 2005
REVENUE						
External sales	34,334	17,901	9,974	4,363	0	66,572
Inter-segment sales	7,799	167	21,275	0	(29,241)	0
Total revenue	42,133	18,068	31,249	4,363	(29,241)	66,572
Inter-segment sales are calculated from external sales prices.						
RESULT						
Segment result	6,326	1,294	1,536	(321)	2,066	10,901
Financial income/(expenses)						(682)
Profit before tax						10,219
Income tax						(2,431)
Net profit						7,788
OTHER INFORMATION						
Capital additions	1,450	190	1,763	0	0	3,403
Depreciation and amortisation	1,196	308	886	0	0	2,390
BALANCE SHEET	30.6.2005	30.6.2005	30.6.2005	30.6.2005	30.6.2005	30.6.2005
ASSETS						
Segment assets	94,911	18,204	109,157	1,163	(115,002)	108,433
LIABILITIES						
Segment liabilities	94,662	13,289	46,436	0	(106,709)	47,678

All amounts in thousands of USD

5. GEOGRAPHICAL SEGMENTS (CONTINUED)

2004	NORTH AMERICA YTD 2004	EUROPE, OTHER YTD 2004	NORDIC YTD 2004	INTERNATIONAL MARKETS YTD 2004	ELIMINATIONS YTD 2004	CONSOLIDATED YTD 2004
REVENUE						
External sales	33,320	16,566	8,639	3,918	0	62,443
Inter-segment sales	8,767	0	23,325	0	(32,092)	0
Total revenue	42,087	16,566	31,964	3,918	(32,092)	62,443
NET PROFIT						
Segment result	6,765	(1,228)	8,058	(349)	(3,078)	10,168
Financial income/(expenses)						(974)
Profit before tax						9,194
Income tax						(2,071)
Net profit						7,123
OTHER INFORMATION						
Capital additions	377	845	1,790	0	(105)	2,907
Depreciation and amortisation	1,359	175	773	2	0	2,309
BALANCE SHEET	**31.12.2004**	**31.12.2004**	**31.12.2004**	**31.12.2004**	**31.12.2004**	**31.12.2004**
ASSETS						
Segment assets	88,623	21,530	108,298	961	(110,497)	108,915
LIABILITIES						
Segment liabilities	91,173	16,931	51,109	0	(105,018)	54,195

6. FINANCIAL INCOME / (EXPENSES)

INCOME FROM INVESTMENTS:	YTD 2005	YTD 2004
Interest on bank deposits	28	17
Loss / profit from loans and receivables	(20)	9
Loss from available for sale investments	(1)	(4)
Profit from trading investments	0	8
Other interest income	9	1
	16	31
FINANCE COSTS:		
Interest on bank loans	(710)	(711)
Interest on obligations under finance leases	(9)	(27)
Other interest expenses	(52)	(38)
	(771)	(776)
Exchange rate differences	73	(229)
	(682)	(974)

7. EARNINGS PER SHARE

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

	YTD 2005	YTD 2004
Net profit for the period	7,788	7,123
Total average number of shares outstanding during the period (in thousands)	314,109	317,542
Total average number of shares including potential shares (in thousands)	314,935	318,871
Basic Earnings per Share (US cent)	2.48	2.24
Diluted Earnings per Share (US cent)	2.47	2.23

	Q2 2005	Q2 2004
Net profit for Q2	4,615	3,860
Total average number of shares outstanding during Q2 (in thousands)	314,174	317,372
Total average number of shares including potential shares (in thousands)	314,961	318,792
Basic Earnings per Share (US cent)	1.47	1.22
Diluted Earnings per Share (US cent)	1.47	1.21

8. PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS AND SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
At 1 January 2005	3,161	16,845	9,097	29,103
Additions	0	1,621	1,782	3,403
Exchange differences	0	(397)	(165)	(562)
Eliminated on disposal	0	(192)	(105)	(297)
Fully depreciated assets	0	(409)	(85)	(494)
At 30 June 2005	3,161	17,468	10,524	31,153
ACCUMULATED DEPRECIATION				
At 1 January 2005	502	8,149	4,458	13,109
Charge for the year	54	1,098	649	1,801
Exchange differences	0	(189)	(59)	(248)
Eliminated on disposal	0	(93)	(11)	(104)
Fully depreciated assets	0	(409)	(85)	(494)
At 30 June 2005	556	8,556	4,952	14,064
CARRYING AMOUNT				
At 30 June 2005	2,605	8,912	5,572	17,089
At 31 December 2004	2,659	8,696	4,639	15,994

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

	YTD 2005	YTD 2004
Cost of goods sold	932	1,012
Sales and marketing expenses	115	85
Research and development expenses	169	138
General and administrative expenses	585	538
	1,801	1,773

All amounts in thousands of USD

9. GOODWILL

	30.6.2005
COST	
At 1 January 2005	25,095
Additions	49
Exchange differences	(495)
At 30 June 2005	24,649
CARRYING AMOUNT	
At 30 June 2005	24,649

10. OTHER INTANGIBLE ASSETS

COST	PATENT	DEVELOPMENT-COST	OTHER	TOTAL
At 1 January 2005	4,418	458	2,766	7,642
Exchange differences	(61)	0	(46)	(107)
At 30 June 2005	4,357	458	2,720	7,535
AMORTIZATION				
At 1 January 2005	1,334	150	783	2,267
Charge for the year	286	106	197	589
Exchange differences	(13)	0	(11)	(24)
At 30 June 2005	1,607	256	969	2,832
CARRYING AMOUNT				
At 30 June 2005	2,750	202	1,751	4,703
At 31 December 2004	3,084	308	1,983	5,375

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

	YTD 2005	YTD 2004
Cost of goods sold	107	144
Sales and marketing expenses	260	164
Research and development expenses	15	46
General and administrative expenses	207	182
	589	536

11. 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
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Ossur Holdings, Inc.	USA	100%	Holding
Ossur Engineering, Inc.	USA	100%	Manufacturer
Ossur North America, Inc.	USA	100%	Sales, distribution and services
Generation II USA, Inc	USA	100%	Manufacturer, sales
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%	No operation
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services
Ossur Asia Pacific PTY Ltd.	Australia	100%	Sales, distribution and services

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

In May Ossur formed a new subsidiary in Australia by the name Ossur Asia Pacific PTY Ltd. The subsidiary is 100% owned by Ossur. On June 30th Ossur Asia Pacific entered into a Business Purchase Agreement to acquire the business and assets of Advanced Prosthetic Components Pty Limited in Sidney, Australia for USD 1,154 thousand plus the value of inventory. Operations started July 1st and therefore the final balance sheet of the company was not available at the balance sheet date.

12. LOANS AND RECEIVABLES

	LOANS AND RECEIVABLES
Balance at 1 January 2004	448
Additions during the year	362
Installments during the year	(101)
Exchange differences	115
At 1 January 2005	824
Additions during the year	10
Installments during the year	(35)
Exchange differences	(52)
At 30 June 2005	747

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.

13. AVAILABLE FOR SALE INVESTMENTS

	AVAILABLE FOR SALE
At 1 January 2004	476
Disposed of during the year	(117)
Fair value and exchange rate adjustments	52
At 1 January 2005	411
Disposed of during the year	(5)
Fair value and exchange rate adjustments	(62)
At 30 June 2005	344

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.

58 All amounts in thousands of USD

14. INVENTORIES

	30.6.2005	31.12.2004
Raw material	6,116	6,489
Work in progress	1,370	624
Finished goods	6,725	7,992
	14,211	15,105

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 7,635 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,786 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

15. ACCOUNTS RECEIVABLE

	30.6.2005	31.12.2004
Nominal value	20,243	17,318
Allowances for doubtful accounts	(715)	(720)
Allowances for sales return	(572)	(572)
	18,956	16,026

16. SHARE CAPITAL

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

	SHARES	RATIO	NOMINAL VALUE
Total share capital at period-end	314.1	98.6%	3,044
Treasury stock at period-end	4.3	1.4%	42
	318.4	100.0%	3,086

Shares issued and outstanding at period-end numbered a total of 318,441,000. The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:

	SHARE CAPITAL
Share capital as of 1 January 2004	3,083
Purchases of treasury stock	(62)
Exercised share options	16
Allocation of treasury stock to sellers of subsidiaries	5
Share capital as of 1 January 2005	3,042
Exercised share options	2
Balance at 30 June 2005	3,044

17. CAPITAL RESERVES

	SHARE PREMIUM	STATUTORY RESERVES	TOTAL
Balance at 1 January 2004	23,616	796	24,412
Purchases of treasury stock	(7,193)		(7,193)
Exercised share options	324		324
Allocation of treasury stock to sellers of subsidiaries	204		204
Balance at 1 January 2005	16,951	796	17,747
Exercised share options	228		228
Balance at 30 June 2005	17,179	796	17,975

18. TRANSLATION RESERVES

	TRANSLATION RESERVES
Balance at 1 January 2004	2,448
Exchange differences arising on translation of subsidiaries	2,318
Transfered to income due to sale of subsidiaries	(130)
Balance at 1 January 2005	4,636
Exchange differences arising on translation of subsidiaries	(1,983)
Balance at 30 June 2005	2,653

19. ACCUMULATED PROFITS

	ACCUMULATED PROFITS
Balance at 1 January 2004	14,068
Net profit for the year	15,227
Balance at 1 January 2005	29,295
Net profit for the period	7,788
Balance at 30 June 2005	37,083

20. 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 (ISK) / CONDITIONS / DATE GRANTED	2005	2006	TOTAL
24.0 / conditional / September 2000	84		84
46.0 / conditional / June 20010		1,000	1,000
58.5 / conditional / January 2001	266		266
73.7 / conditional / July 2000	3,250		3,250
	3,600	1,000	4,600

All options are forfeited if the employee leaves the company before the options vest. The stock option agreements with contract rate of 58.5 expire in 2006 unless terminated.

	1.1–30.6 2005		1.1–31.12 2004	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)
Outstanding at beginning of year	4,803	66.05	6,655	52.80
Forfeited during the year	0	0.00	(169)	58.50
Exercised during the year	(203)	69.76	(1,683)	14.45
Outstanding at the end of the period	4,600	65.89	4,803	66.05
Exercisable at the end of the period	3,600	71.42	319	58.50

At 30 June 2005, the total outstanding number of shares in Ossur hf. amounted to 318,441,000.

21. LOANS FROM CREDIT INSTITUTIONS

	REMAINING BALANCES	
	30.6.2005	31.12.2004
Loans in USD	19,381	23,115
Loans in EUR	8,445	10,053
	27,826	33,168
Current maturities	(866)	(981)
Loans from credit institutions	26,960	32,187
Aggregated annual maturities are as follows:		
In 1.7.2005 - 30.6.2006 / 2005	866	981
In 1.7.2006 - 30.6.2007 / 2006	866	981
In 1.7.2007 - 30.6.2008 / 2007	24,361	981
In 1.7.2008 - 30.6.2009 / 2008	866	28,754
In 1.7.2009 - 30.6.2010 / 2009	867	981
Later	0	490
	27,826	33,168

22. OBLIGATION UNDER FINANCE LEASES

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES	
	30.6.2005	31.12.2004	30.6.2005	31.12.2004
Finance leases in USD	104	174	93	168
Finance leases in EUR	287	403	265	385
	391	577	358	553
Current maturities	(248)	(331)	(238)	(313)
Obligation under finance leases	143	246	120	240

Aggregated annual maturities are as follows:

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES	
	30.6.2005	31.12.2004	30.6.2005	31.12.2004
In 1.7.2005 - 30.6.2006 / 2005	248	331	238	313
In 1.7.2006 - 30.6.2007 / 2006	143	215	120	209
In 1.7.2007 - 30.6.2008 / 2007	0	31	0	31
	391	577	358	553
Less: future finance charges	(33)	(24)		
Remaining balances	358	553		

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.

23. OTHER LONG-TERM LIABILITIES

	REMAINING BALANCES	
	30.6.2005	31.12.2004
Other liabilities in USD	1,198	1,457
Other liabilities in EUR	121	137
	1,319	1,594
Current maturities	(1,176)	(1,262)
Other long-term liabilities	143	332
Aggregated annual maturities are as follows:		
In 1.7.2005 - 30.6.2006 / 2005	1,176	1,262
In 1.7.2006 - 30.6.2007 / 2006	50	189
In 1.7.2007 - 30.6.2008 / 2007	48	50
In 1.7.2008 - 30.6.2009 / 2008	45	48
In 1.7.2009 - 30.6.2010 / 2009	0	45
	1,319	1,594

24. DEFERRED TAX

	DEFERRED TAX ASSET	DEFERRED TAX LIABILITIES	TOTAL
At 1 January 2005	20,245	(2,863)	17,382
Calculated tax for the year	(2,459)	28	(2,431)
Income tax payable for the year	420	381	801
Exchange differences	(373)	31	(342)
At 30 June 2005	17,833	(2,423)	15,410

25. LONG-TERM LIABILITIES – DUE WITHIN ONE YEAR

	30.6.2005	31.12.2004
Loans from credit institutions	866	981
Obligations under finance leases	238	313
Other long-term liabilities	1,176	1,262
	2,280	2,556

26. PROVISIONS

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	TOTAL
At 1 January 2005	557	59	616
Additional provision in the year	445	275	720
Utilisation of provision	(132)	(254)	(386)
At 30 June 2005	870	80	950

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.

27. DISPOSAL OF THE DOMESTIC SHOESHOP

On 6 June 2005 Ossur hf. sold the domestic shoeshop owned by the company. The total cash consideration amounted to USD 895 thousand.

NET ASSETS AT THE DATE OF DISPOSAL	DISPOSAL 06.06.2005
Operating fixed assets	107
Inventories	340
	447
Total consideration	895
Net assets at the date of disposal	(447)
Gain on disposal	448
Satisfied by cash	549
Payable later during the year	346
	895
NET CASH INFLOW ARISING ON DISPOSAL	
Cash consideration	549

The operations of the shoeshop are not material in the Ossur hf. consolidation and therefore the disposal is not classified as discontinued operations. The gain on disposal is included with other income in the consolidated income statement.

28. APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 28 July 2005.

All amounts in thousands of USD 61

APPENDIX C

Ossur hf.
Consolidated
Financial Statements 2004

FINANCIAL RATIOS

CONSOLIDATED STATEMENT			2004	2003	2002	2001	2000
GROWTH	Net sales	USD '000	124,399	94,467	81,284	68,380	45,682
	EBITDA	USD '000	25,045	9,428	14,310	12,973	8,904
	Profit from operations	USD '000	20,374	6,112	11,501	10,889	7,560
	Employees	Number	568	480	431	392	327
	Net income ([1])	USD '000	15,227	4,661	10,056	8,632	5,188
	Total assets	USD '000	108,915	102,126	71,425	58,201	56,851
OPERATIONAL PERFORMANCE	Cash provided by operating activities	USD '000	16,600	10,383	10,503	10,359	5,797
	- as ratio to total debt	%	30	23	36	36	30
	- as ratio to net profit		1.1	2.2	1.0	1.2	1.1
	Working capital from operating activities	USD '000	23,095	8,774	14,661	10,771	8,557
	- as ratio to long-term debt and stockh. equity	%	27	13	30	27	25
	- as ratio to investm., current maturities, divid.		0.8	0.2	1.7	1.2	0.1
LIQUIDITY AND SOLVENCY	Quick ratio		1.4	1.2	1.5	1.2	1.1
	Current ratio		2.2	1.8	2.3	1.9	1.5
	Equity ratio	%	50	43	56	52	45
ASSET UTILIZATION AND EFFICIENCY	Net sales pr. employee	USD '000	219	197	189	174	140
	Total asset turnover		1.2	1.1	1.3	1.3	1.1
	Grace period granted	Days	44	47	44	44	50
PROFITABILITY	Return on capital ([1])	%	20	9	20	19	8
	Return on common equity ([1])	%	31	11	29	32	9
	Operating profit as ratio to net sales	%	16	6	14	16	16
	Net income before taxes as ratio to net sales	%	15	6	15	15	13
	Net income for the period as ratio to net sales ([1])	%	12	5	12	12	11
MARKET	Value of stock	USD '000	395,514	201,237	219,584	158,492	255,928
	Price/earnings ratio, (P/E) ([1])		26.0	43.2	21.8	19.4	53.0
	Price/book ratio		7.2	4.6	5.5	5.2	10.1
	Number of shares	Millions	318	328	328	328	328
	Earnings per Share, (EPS) ([1])	US Cent	4.80	1.45	3.12	2.64	1.48
	Diluted Earnings per Share, (Diluted EPS) ([1])	US Cent	4.80	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2004

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION RESERVES	ACCUMULATED PROFITS	TOTAL
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 1 January 2004	3,083	24,412	2,448	14,068	44,011
Translation difference of shares in foreign companies			2,318		2,318
Net gains / losses not recognised in the income statement	0	0	2,318	0	2,318
Transfered to income due to sale of subsidiaries			(130)		(130)
Purchases of treasury stock	(62)	(7,193)			(7,255)
Exercised share options	16	324			340
Allocation of treasury stock to sellers of subsidiaries	5	204			209
Net profit for the year				15,227	15,227
Balance at 31 December 2004	3,042	17,747	4,636	29,295	54,720

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 2004. Ossur Financial statements are prepared in accordance with IFRS reporting standards.

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, Holland and Sweden. The Company sells its products world wide, but the principal market areas are North America and Europe. In the year 2004, Ossur Consolidation consisted of Ossur hf. in Iceland, the Ossur Holdings, Inc. Consolidation in the United States, Generation II Orthotics, Inc. in Canada, the Ossur Holding, A.B. Consolidation in Sweden, and Ossur Europe B.V. in Holland.

The total sales of the Ossur Consolidation amounted to USD 124.4 million, compared to USD 94.5 million in the preceding year. This represents an increase in sales of approximately 32%. Net profit amounted to USD 15.2 million compared to USD 4.7 million in 2003. Earnings per Share (EPS) amounted to US cents 4.80 compared to US cents 1.45 in 2003. Earnings before interests, taxes, depreciation and amortization (EBITDA) amounted to USD 25 million.

The total assets of the Ossur Consolidation amounted to USD 108.9 million at year-end, liabilities were 54.2 million, and equity was 54.7 million. The equity ratio at year-end was 50%, compared to 43% the preceding year.

In the course of the year the Company employed 568 employees, of which 213 were employed by the parent company in Iceland. Throughout 2003 an average of 480 employees were employed with the Company, of which 184 were employed by the parent company.

During the year, the Company acquired 6.4 million of treasury shares and handed over 2.2 million shares to meet stock option agreements. The share price of the Company was 76 at year-end, compared to 43.6 at the beginning of the year. The market value of the Company at year-end was 396 million USD and increased 97% over the year. At year-end, shareholders in Ossur hf. numbered 3,376, compared to 4,429 at the beginning of the year. Three shareholders owned more than 10% of the shares in the Company at year-end: AB Industrivärden, with 20.45%, Mallard Holding SA, with 18.69%, and William Demant Invest A/S, with 16.14%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company and Internal Rules of Procedure set by the Board back in 1999. The rules comply with the guideline on Corporate Governance set in March 2004 by the Icelandic Stock Exchange, the Iceland Chamber of Commerce and SA-Confederation of Icelandic Employers. The Internal Rules address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee has not been set up within the Board and the Board itself handles all issues that would be decided by an Audit Committee. A Compensation Committee is present within the Board. The Compensation Committee decides on compensation for the President & CEO. No Ossur employees are sitting on the Board of Directors.

The Board of Directors does not recommend payment of dividends to shareholders in 2005. 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 2004 with their signatures.

Reykjavik, February 7, 2005

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson
Heimir Haraldsson
Sigurbjorn Thorkelsson

Gunnar Stefansson
Kristjan T. Ragnarsson
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, 2004, 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, 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 7 February 2005

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2004 AND 2003

	NOTES	2004	2003
NET SALES	4	124,399	94,467
Cost of goods sold		(49,555)	(40,232)
GROSS PROFIT		74,844	54,235
Other income		1,049	266
Sales and marketing expenses		(26,772)	(21,238)
Research and development expenses		(9,066)	(9,592)
General and administrative expenses		(19,681)	(17,559)
PROFIT FROM OPERATIONS		20,374	6,112
Financial income/(expenses)	11	(1,232)	(407)
PROFIT BEFORE TAX		19,142	5,705
Income tax	30	(3,915)	(1,044)
NET PROFIT FOR THE YEAR		15,227	4,661
EARNINGS PER SHARE	12		
Basic Earnings per Share (US cent)		4.80	1.45
Diluted Earnings per Share (US cent)		4.80	1.44

All amounts in thousands of USD

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2004	31.12.2003
FIXED ASSETS			
Property, plant and equipment	13	15,994	14,950
Goodwill	14	25,095	23,599
Other intangible assets	15	5,375	5,569
Loans and receivables	17	824	448
Available for sale investments	18	411	476
Deferred tax asset	30	20,245	20,529
		67,944	65,571
CURRENT ASSETS			
Inventories	19	15,105	12,415
Accounts receivable	20	16,026	14,965
Other receivables	20	5,543	4,586
Investments held for trading	21	0	262
Bank balances and cash	20	4,297	4,327
		40,971	36,555
TOTAL ASSETS		108,915	102,126

All amounts in thousands of USD

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EQUITY AND LIABILITIES

	NOTES	31.12.2004	31.12.2003
STOCKHOLDERS' EQUITY			
Share capital	22	3,042	3,083
Capital reserves	23	17,747	24,412
Translation reserves	24	4,636	2,448
Accumulated profits	25	29,295	14,068
		54,720	44,011
LONG-TERM LIABILITES			
Loans from credit institutions	27	32,187	34,892
Obligation under finance leases	28	240	767
Other long-term liabilities	29	332	482
Deferred tax liabilities	30	2,863	2,206
		35,622	38,347
CURRENT LIABILITES			
Long-term liabilities – due within one year	31	2,556	3,314
Accounts payable		3,417	4,263
Tax liabilities		2,425	606
Other current liabilities		9,559	9,872
Provisions	32	616	1,713
		18,573	19,768
TOTAL EQUITY AND LIABILITIES		108,915	102,126

All amounts in thousands of USD

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2004 AND 2003

	NOTES	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		20,374	6,112
Depreciation and amortization	13, 15	4,671	3,316
Loss / (gain) on disposal of assets		(433)	9
Changes in current assets and liabilities		(5,439)	4,839
CASH GENERATED BY OPERATIONS		19,173	14,276
Interest received		76	195
Interest paid		(1,500)	(1,416)
Taxes paid		(1,149)	(2,672)
NET CASH PROVIDED BY OPERATING ACTIVITIES		16,600	10,383
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	13, 15	(6,609)	(4,686)
Proceeds from sale of fixed assets		813	196
Acquisition of subsidiaries		(911)	(29,867)
Sale of subsidiaries	33, 34	1,572	0
Additions in loans and receivables	17	(362)	(128)
Installments of loans and receivables	17	101	261
Purchases of available for sale investments	18	0	(5)
Proceeds from sale of available for sale investments	18	117	11
Purchases of trading investments	21	(137)	(4,099)
Proceeds from sale of trading investments	21	408	5,152
NET CASH USED IN INVESTING ACTIVITIES		(5,008)	(33,165)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing of long-term liabilities		20,620	32,000
Repayments of long-term liabilities		(25,346)	(13,305)
Purchases of treasury stock	22, 23	(7,255)	(3,061)
Exercised share options	22, 23	340	61
NET CASH USED IN FINANCING ACTIVITIES		(11,641)	15,695
NET CHANGE IN CASH AND CASH EQUIVALENTS		(49)	(7,087)
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS		19	338
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,327	11,076
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,297	4,327
OTHER INFORMATION			
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net profit for the year		15,227	4,661
Items not affecting cash		7,868	4,113
WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES		23,095	8,774
Changes in current assets and liabilities		(6,495)	1,609
NET CASH PROVIDED BY OPERATING ACTIVITIES		16,600	10,383

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 and Europe, 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 seven places during the period: at Ossur North America, Inc., in Aliso Viejo, California, which assembled prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactured prosthetic knees; at Mauch, Inc. in Dayton, Ohio, which manufactured components for spinal implants, and at Ossur hf. in Iceland, which manufactured liners, prosthetic feet and components. Orthotic devices were manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada and Generation II in Seattle in the US. The parent company operated 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 four independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada, Ossur Europe, B.V., Netherlands, and Ossur Nordic, AB, Sweden.

2. 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 period 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, 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 Consolidations 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.

RISK MANAGEMENT

Ossur hf. 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 55% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

Almost 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 3-4 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 expensed in the period they incur.

TAXATION

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

Deferred tax 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. Intangible assets 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 period is recognised as an expense. The amortization charge for each year is recognised as expense, on the following bases:

Patent	10-25%
Development cost	20%
Other intangible assets	20%

All research and development costs and costs relating to internally-generated patents incurred during the period 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 or loans and receivables) 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.

On 1 January 2004, Ossur Consolidated applied the requirement of IFRS 2 Share-based Payments. In accordance with the transition provisions, IFRS will be applied to all options granted after 7 November 2002 that were unvested as of 1 January 2004. All options in Ossur hf. were granted prior to 7 November 2002.

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.

All amounts in thousands of USD

3. 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	30,668	31,775	30,674	31,282	124,399
Cost of goods sold	(12,133)	(12,595)	(11,889)	(12,938)	(49,555)
GROSS PROFIT	18,535	19,180	18,785	18,344	74,844
Other income	25	307	220	497	1,049
Sales and marketing exp.	(6,840)	(6,856)	(6,246)	(6,830)	(26,772)
Research and develop. exp.	(2,320)	(2,156)	(2,204)	(2,386)	(9,066)
General and admin. exp.	(4,854)	(4,853)	(5,044)	(4,930)	(19,681)
PROFIT FROM OPERATIONS	4,546	5,622	5,511	4,695	20,374
Financial income/(expenses)	(278)	(696)	210	(468)	(1,232)
PROFIT BEFORE TAX	4,268	4,926	5,721	4,227	19,142
Income tax	(1,005)	(1,066)	(1,043)	(801)	(3,915)
NET PROFIT FOR THE PERIOD	3,263	3,860	4,678	3,426	15,227
EBITDA	5,739	6,738	6,634	5,934	25,045

4. NET SALES

Net sales are specified as follows according to markets:	2004	2003
North America	65,899	49,488
Europe, other	32,620	24,387
Nordic	17,722	14,089
International markets	8,158	6,503
	124,399	94,467

Net sales are specified as follows according to currency:	2004	2003
Canadian dollar, CAD	9,187	4,046
Swiss Franc, CHF	958	656
Euro, EUR	25,504	18,999
British Pound, GBP	7,482	5,760
Icelandic Krona, ISK	2,178	1,629
Norwegian Krona, NOK	4,950	3,873
Swedish Krona, SEK	10,265	8,404
US Dollar, USD	63,875	51,100
	124,399	94,467

5. GEOGRAPHICAL SEGMENTS

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

2004	NORTH AMERICA 2004	EUROPE, OTHER 2004	NORDIC 2004	INTERNATIONAL MARKETS 2004	ELIMINATIONS 2004	CONSOLIDATED 2004
REVENUE						
External sales	65,899	32,620	17,722	8,158	0	124,399
Inter-segment sales	16,504	0	45,942	0	(62,446)	0
Total revenue	82,403	32,620	63,664	8,158	(62,446)	124,399
Inter-segment sales are calculated from external sales prices.						
RESULT						
Segment result	13,188	(2,823)	13,648	(587)	(3,052)	20,374
Financial income/(expenses)						(1,232)
Profit before tax						19,142
Income tax						(3,915)
Net profit						15,227
OTHER INFORMATION						
Capital additions	1,715	1,387	4,277	0	(523)	6,856
Depreciation and amortisation	2,607	431	1,630	3	0	4,671
BALANCE SHEET	31.12.2004	31.12.2004	31.12.2004	31.12.2004	31.12.2004	31.12.2004
ASSETS						
Segment assets	88,623	21,530	108,298	961	(110,497)	108,915
LIABILITIES						
Segment liabilities	91,173	16,931	51,109	0	(105,018)	54,195

All amounts in thousands of USD

5. GEOGRAPHICAL SEGMENTS (CONTINUED)

2003	NORTH AMERICA 2003	EUROPE, OTHER 2003	NORDIC 2003	INTERNATIONAL MARKETS 2003	ELIMINATIONS 2003	CONSOLIDATED 2003
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
RESULT						
Segment result	8,357	(2,295)	2,816	(529)	(2,237)	6,112
Financial income/(expenses)						(407)
Profit before tax						5,705
Income tax						(1,044)
Net profit						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

6. BUSINESS SEGMENTS

Current business segments for the Consolidation are Prosthetics, Orthotics and other products. It is not possible to disclose assets according to business segments due to shared usage of assets.

Net sales are specified as follows according to product lines:

	2004	2003
Prosthetics	91,549	79,482
Orthotics	30,153	11,814
Other products	2,697	3,171
	124,399	94,467

7. SALARIES

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

	2004	2003
Salaries	30,334	26,568
Salary-related expenses	8,946	7,678
	39,280	34,246
Average number of positions	568	480

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

	2004	2003
Cost of goods sold	17,487	12,233
Sales and marketing	10,749	11,071
Research and development	3,956	4,340
General and administrative	7,088	6,602
	39,280	34,246

8. MANAGEMENT SALARIES AND BENEFITS

BOARD OF DIRECTORS:	SALARIES	SHARE OPTIONS	SHARES OWNED
Petur Gudmundarson Chairman of the Board	38	300,000	1,238,641
Ossur Kristinsson Vice Chairman	63	150,000	59,531,846
Gunnar Stefansson	15	150,000	1,224,812
Heimir Haraldsson	15	0	940,000
Kristjan Tomas Ragnarsson	15	150,000	349,616
Sigurbjorn Thorkelsson	15	150,000	313,072
Bengt Kjell	15	0	0
EXCECUTIVE COMMITTEE:			
Jon Sigurdsson President and CEO	335	2,000,000	5,882,368
Hjorleifur Palsson CFO	187	1,000,000	0
Egill Jonsson VP of Manufacturing & Operations	187	0	16,208
Arni Alvar Arason VP of Sales & Marketing	189	250,000	1,506,287
Hilmar Bragi Janusson VP of R&D	187	250,000	969,456

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 two 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.

All amounts in thousands of USD

9. FEES TO AUDITORS

	2004	2003
Audit of financial statements	190	215
Review of interim financial statements	95	92
Other services	121	136
	406	443

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

10. RESTRUCTURING COSTS

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

	2004	2003
Cost of goods sold	241	162
Sales and marketing	0	480
Research and development	0	556
General and administrative	260	333
	501	1,531

The restructuring costs represent severance costs associated with changes in the management team, elimination of the sales and marketing positions in Seattle and elimination of positions due to sale of Mauch's assets.

11. FINANCIAL INCOME / (EXPENSES)

INCOME FROM INVESTMENTS:	2004	2003
Interest on bank deposits	54	150
Profit from loans and receivables	115	58
Profit from available for sale investments	52	72
Profit from trading investments	9	125
Other interest income	26	43
	256	448
FINANCE COSTS:		
Interest on bank loans	(1,441)	(1,138)
Interest on obligations under finance leases	(48)	(63)
Other interest expenses	(128)	(141)
	(1,617)	(1,342)
Exchange rate differences	129	487
	(1,232)	(407)

12. EARNINGS PER SHARE

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

	2004	2003
Net profit for the year	15,227	4,661
Total average number of shares outstanding during the year (in thousands)	317,001	322,186
Total average number of shares including potential shares (in thousands)	317,363	323,431
Basic Earnings per Share (US cent)	4.80	1.45
Diluted Earnings per Share (US cent)	4.80	1.44

13. PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS AND SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
At 1 January 2004	3,598	17,348	8,549	29,495
Correction	0	92	(92)	0
Adjusted opening balance	3,598	17,440	8,457	29,495
Additions	0	3,680	2,516	6,196
Exchange differences	(13)	475	162	624
Disposed of on disposal of a susidiary	0	(2,826)	(252)	(3,078)
Eliminated on disposal	(419)	(662)	(104)	(1,185)
Fully depreciated assets	(5)	(1,262)	(1,682)	(2,949)
At 31 December 2004	3,161	16,845	9,097	29,103
ACCUMULATED DEPRECIATION				
At 1 January 2004	403	8,917	5,225	14,545
Correction	0	92	(92)	0
Adjusted opening balance	403	9,009	5,133	14,545
Charge for the year	112	2,242	1,198	3,552
Exchange differences	1	286	68	355
Disposed of on disposal of a susidiary	0	(1,691)	(201)	(1,892)
Eliminated on disposal	(9)	(434)	(59)	(502)
Fully depreciated assets	(5)	(1,263)	(1,681)	(2,949)
At 31 December 2004	502	8,149	4,458	13,109
CARRYING AMOUNT				
At 31 December 2004	2,659	8,696	4,639	15,994
At 31 December 2003	3,195	8,431	3,324	14,950

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 771 thousand (2003: USD 1,319 thousand) in respect of assets held under finance leases. No other assets are pledged.

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2004	2003
Cost of goods sold	1,986	1,372
Sales and marketing expenses	138	127
Research and development expenses	231	313
General and administrative expenses	1,197	1,122
	3,552	2,934

Sales gain and loss classified by operational category, are shown in the following schedule:

	2004	2003
Other income	178	0
General and administrative expenses	(48)	(9)
	130	(9)

14. GOODWILL

	31.12.2004
COST	
At 1 January 2004	23,599
Arising on a acquisition of a subsidiary	459
Exchange differences	1,037
At 31 December 2004	25,095
CARRYING AMOUNT	
At 31 December 2004	25,095

Additions arising on acquisition of a subsidiary relate to the acquisition of the Generation II Group in 2003. USD 410 thousand are due to receivables which where owned by the former sellers in accordance with the purchase agreement and should therefore not have been included in the opening balance which was consolidated into the Ossur consolidation. USD 49 thousand are due to invoices received in 2004 which related to the acquisition of Generation II and should therefore have been included in the goodwill entries. Total additions amounted therefore to USD 459 thousand.

During the year an indipendent party, other than the company's auditor, was hired to perform an impairment test on the goodwill of the company. According to the conclusion of the test no impairment loss has occured.

15. OTHER INTANGIBLE ASSETS

COST	PATENT	DEVELOPMENT-COST	OTHER	TOTAL
At 1 January 2004	3,578	458	2,609	6,645
Additions	658	0	2	660
Exchange differences	182	0	155	337
At 31 December 2004	4,418	458	2,766	7,642
AMORTIZATION				
At 1 January 2004	769	46	261	1,076
Charge for the year	521	104	494	1,119
Exchange differences	44	0	28	72
At 31 December 2004	1,334	150	783	2,267
CARRYING AMOUNT				
At 31 December 2004	3,084	308	1,983	5,375
At 31 December 2003	2,809	412	2,348	5,569

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

	2004	2003
Cost of goods sold	114	0
Sales and marketing expenses	339	0
Research and development expenses	291	256
General and administrative expenses	375	126
	1,119	382

16. THE CONSOLIDATION

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

NAME OF SUBSIDIARY	PLACE OF REGISTRATION AND OPERATION	OWNER-SHIP %	PRINCIPAL ACTIVITY
Ossur Holding, AB	Sweden	100%	Holding
Ossur Nordic, AB	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Ossur 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%	No operation
Generation II USA, Inc	USA	100%	Manufacturer, sales
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%	No operation
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services

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

At the end of the year the net assets and operations of Mauch, Inc. in the United States were sold. Further information regarding the sale is disclosed in note 33.

At the end of October Ossur hf. sold the subsidiaries Mega Hali Med AB and Linea Orthopedics AB in Sweden. At the date of the disposal there were no operations in the companies. Further information regarding the sale is disclosed in note 34.

The subsidiary Ossur UK Ltd. was dissolved during the year. No operations were in the company during 2004.

17. LOANS AND RECEIVABLES

	LOANS AND RECEIVABLES
Balance at 1 January 2003	523
Additions during the year	128
Installments during the year	(261)
Exchange differences	58
At 1 January 2004	448
Additions during the year	362
Installments during the year	(101)
Exchange differences	115
At 31 December 2004	824

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.

18. AVAILABLE FOR SALE INVESTMENTS

	AVAILABLE FOR SALE
At 1 January 2003	410
Purchased during the year	5
Disposed of during the year	(11)
Fair value and exchange rate adjustments	72
At 1 January 2004	476
Disposed of during the year	(117)
Fair value and exchange rate adjustments	52
At 31 December 2004	411

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.

76 All amounts in thousands of USD

19. INVENTORIES

	31.12.2004	31.12.2003
Raw material	6,489	6,585
Work in progress	624	248
Finished goods	7,992	5,582
	15,105	12,415

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,700 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,284 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. An allowance amounting to USD 351 thousand (2003: USD 511 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.

20. OTHER FINANCIAL ASSETS

ACCOUNTS RECEIVABLE:	31.12.2004	31.12.2003
Nominal value	17,318	16,372
Allowances for doubtful accounts	(720)	(843)
Allowances for sales return	(572)	(564)
	16,026	14,965

The average credit period taken on sale of goods is 44 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:	31.12.2004	31.12.2003
VAT refundable	1,607	862
Prepaid expenses	2,932	2,280
Receivable from previous Generation II shareholders	275	550
Lawsuit settlements generated from Generation II	0	440
Other	729	454
	5,543	4,586

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.

21. INVESTMENTS HELD FOR TRADING

	HELD FOR TRADING
At 1 January 2003	1,190
Purchased during the year	4,099
Disposed of during the year	(5,152)
Fair value and exchange rate adjustments	125
At 1 January 2004	262
Purchased during the year	137
Disposed of during the year	(408)
Fair value and exchange rate adjustments	9
At 31 December 2004	0

22. SHARE CAPITAL

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

	SHARES	RATIO	NOMINAL VALUE
Total share capital at year-end	313.9	98.6%	3,042
Treasury stock at year-end	4.5	1.4%	44
	318.4	100.0%	3,086

Shares issued and outstanding at period-end numbered a total of 318,441,000. The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:

	SHARE CAPITAL
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
Share capital as of 1 January 2004	3,083
Purchases of treasury stock	(62)
Exercised share options	16
Allocation of treasury stock to sellers of subsidiaries	5
Balance at 31 December 2004	3,042

23. CAPITAL RESERVES

	PREMIUM	SHARE RESERVES	STATUTORY TOTAL
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 1 January 2004	23,616	796	24,412
Purchases of treasury stock	(7,193)		(7,193)
Exercised share options	324		324
Allocation of treasury stock to sellers of subsidiaries	204		204
Balance at 31 December 2004	16,951	796	17,747

24. TRANSLATION RESERVES

	TRANSLATION RESERVES
Balance at 1 January 2003	368
Exchange differences arising on translation of subsidiaries	2,080
Balance at 1 January 2004	2,448
Exchange differences arising on translation of subsidiaries	2,318
Transfered to income due to sale of subsidiaries	(130)
Balance at 31 December 2004	4,636

25. ACCUMULATED PROFITS

	ACCUMULATED PROFITS
Balance at 1 January 2003	9,467
Transferred to statutory reserves	(60)
Net profit for the year	4,661
Balance at 1 January 2004	14,068
Net profit for the year	15,227
Balance at 31 December 2004	29,295

26. 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 ISK / CONDITIONS / DATE GRANTED	2005	2006	TOTAL
24.0 / conditional / September 2000	84	0	84
46.0 / conditional / June 2001	0	1,000	1,000
58.5 / conditional / January 2001	319	0	319
73.7 / conditional / July 2000	3,400	0	3,400
	3,803	1,000	4,803

All options are forfeited if the employee leaves the company before the options vest. The stock option agreements with contract rate of 58.5 expire in 2006 unless terminated.

	1.1–31.12 2004		1.1–31.12 2003	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE CONTRACT RATE (IN ISK)
Outstanding at beginning of year	6,655	52.80	7,606	52.00
Forfeited during the year	(169)	58.50	(761)	51.92
Exercised during the year	(1,683)	14.45	(190)	24.00
Outstanding at the end of the year	4,803	66.05	6,655	52.80
Exercisable at the end of the year	319	58.50	1,458	25.91

At 31 December 2004, the total outstanding number of shares in Ossur hf. amounted to 318,441,000. 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 period-end 2004 was ISK 76.0 per share.

27. LOANS FROM CREDIT INSTITUTIONS

	REMAINING BALANCES	
	31.12.2004	31.12.2003
Loans in USD	23,115	25,600
Loans in EUR	10,053	10,199
Loans in ISK	0	25
	33,168	35,824
Current maturities	(981)	(932)
Loans from credit institutions	32,187	34,892
Aggregated annual maturities are as follows:		
In 2005 / 2004	981	932
In 2006 / 2005	981	906
In 2007 / 2006	981	906
In 2008 / 2007	28,754	906
In 2009 / 2008	981	30,813
Later	490	1,361
	33,168	35,824

The terms of a USD 23.1 million and EUR 7.4 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.

28. OBLIGATION UNDER FINANCE LEASES

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Finance leases in USD	174	704	168	650
Finance leases in EUR	403	547	385	512
Finance leases in ISK	0	49	0	48
	577	1,300	553	1,210
Current maturities	(331)	(494)	(313)	(443)
Obligation under finance leases	246	806	240	767

Aggregated annual maturities are as follows:

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
In 2005 / 2004	331	494	313	444
In 2006 / 2005	215	439	209	411
In 2007 / 2006	31	316	31	305
In 2008 / 2007	0	51	0	50
	577	1,300	553	1,210
Less: future finance charges	(24)	(90)		
Remaining balances	553	1,210		

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.

29. OTHER LONG-TERM LIABILITIES

	REMAINING BALANCES	
	31.12.2004	31.12.2003
Other liabilities in USD	1,457	2,420
Other liabilities in EUR	137	0
	1,594	2,420
Current maturities	(1,262)	(1,938)
Other long-term liabilities	332	482
Aggregated annual maturities are as follows:		
In 2005 / 2004	1,262	1,938
In 2006 / 2005	189	287
In 2007 / 2006	50	52
In 2008 / 2007	48	50
In 2009 / 2008	45	48
Later	0	45
	1,594	2,420

30. DEFERRED TAX

	DEFERRED TAX ASSET	DEFERRED TAX LIABILITIES	TOTAL
At 1 January 2004	20,529	(2,206)	18,323
Calculated tax for the year	(1,468)	(2,447)	(3,915)
Income tax payable for the year	932	1,929	2,861
Exchange differences	252	(139)	113
At 31 December 2004	20,245	(2,863)	17,382

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

	31.12.2004
Intangible assets	(1,306)
Fixed tangible assets	(782)
Goodwill	13,301
Inventories	2,409
Accrued expenses	89
Reserves and credits	667
Other	(725)
Loss carry-forward	3,729
	17,382

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

	TAX LOSS	DEFERRED TAX
Available for 15 years	1,276	434
Available indefinitely	9,080	3,295
	10,356	3,729

31. LONG-TERM LIABILITIES – DUE WITHIN ONE YEAR

	31.12.2004	31.12.2003
Loans from credit institutions	981	932
Obligations under finance leases	313	444
Other long-term liabilities	1,262	1,938
	2,556	3,314

32. PROVISIONS

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	TOTAL
At 1 January 2004	392	1,321	1,713
Additional provision in the year	435	501	936
Exchange differences	0	(18)	(18)
Utilisation of provision	(270)	(1,745)	(2,015)
At 31 December 2004	557	59	616

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.

The restructuring provision relates to the sale of Mauch's Inc. assets.

33. DISPOSAL OF THE NET ASSETS OF MAUCH, INC. IN THE UNITED STATES

On 31 December 2004 the net assets and operations of Mauch, Inc in the United States were sold for cash consideration of USD 1.569 thousand.

NET ASSETS AT THE DATE OF DISPOSAL	DISPOSAL 31.12.2004
Operating fixed assets	1,186
Current assets	598
Long-term liabilites	(241)
Current liabilities	(150)
	1,393
Total consideration	1,569
Net assets at the date of disposal	(1,393)
Gain on disposal	176
Satisfied by cash	1,575
Accounts payable	(6)
	1,569
NET CASH INFLOW ARISING ON DISPOSAL	
Cash consideration	1,575

The operations of Mauch, Inc. are not material in the Ossur hf. consolidation and therefore the disposal is not classified as discontinued operations. The gain on disposal is included with other income in the consolidated income statement.

Mauch, Inc. contributed USD 2.2 million of revenue and generated loss of USD 810 thousand for the period between the beginning of the year and the date of disposal.

34. DISPOSAL OF THE SUBSIDIARIES MEGA HALI MED AB AND LINEA ORTHOPEDICS AB IN SWEDEN

On 31 October 2004 Ossur hf. sold the subsidiaries Mega Hali Med AB and Linea Orthopedics AB in Sweden. The total cash consideration amounted to SEK 264 thousand or USD 37 thousand. At the date of disposal there were no operations in the companies.

NET ASSETS AT THE DATE OF DISPOSAL	DISPOSAL 31.12.2004
Bank balances and cash	40
Total consideration	37
Net assets at the date of disposal	(40)
Translation reserves transferred to income	130
Gain on disposal	127
Satisfied by cash	37
NET CASH INFLOW ARISING ON DISPOSAL	
Cash consideration	37
Cash and cash equivalents disposed of	(40)
	(3)

The operations of Mega Hali Med AB and Linea Orthopedics AB are not material in the Ossur hf. consolidation and therefore the disposal is not classified as discontinued operations. The gain on disposal is included with other income in the consolidated income statement.

Mega Hali Med AB and Linea Orthopedics AB contributed no revenue and generated loss of USD 10 thousand for the period between the beginning of the year and the date of disposal.

All amounts in thousands of USD 79

35. OPERATING LEASE ARRANGEMENTS

	2004	2003
Minimum lease payments under operating leases recognised in Income Statement for the year	3,358	2,172

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

In 2005 / 2004	3,547	2,949
In 2006 / 2005	3,370	2,646
In 2007 / 2006	2,259	1,876
In 2008 / 2007	1,454	1,034
In 2009 / 2008	1,120	525
Later	1,690	1,006
	13,440	10,036

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Fifteen rental agreements are in place for premises in Reykjavik, the Netherlands, Sweden, United Kingdom and the United States. The leases expire in the years 2005–2020.

36. CASH FLOW

Patents in the amount of USD 247 thousand were purchased during the period, financed by a long-term loan. These purchases do not affect cash, and are therefore not included in the Consolidated Statements of Cash Flow.

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	42,718	31,099

The consolidation owns buildings situated in California USA.

The consolidation has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 27,950 thousand USD.

38. LITIGATION

Kenneth L. Heiting and Heiting Tool & Die, Inc. in Wisconsin, USA have sued Ossur North America, Inc. claiming that they had been promised production of components for one of Ossur's knee products. Ossur is vigorously contesting the claims.

39. APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 8 February 2005.

All amounts in thousands of USD