Ossur hf.

Consolidated Financial Statements

2007

Ossur hf.
Grjothalsi 5
110 Reykjavik
Id-no. 560271-0189

Ossur hf.

Consolidated Financial Statements

2007

Table of Contents

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

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

The total sales of the Ossur Consolidation amounted to USD 335.6 million, compared to USD 252.1 million in the preceding year. This represents an increase in sales of approximately 33%. Net profit amounted to USD 7.6 million compared to USD 4.4 million in 2006. Earnings per Share (EPS) amounted to US cents 1.94 compared to US cents 1.13 in 2006. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 64.4 million compared to USD 39.5 million in the preceding year.

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

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

The Company increased share capital by USD 65,7 million during the year. The share price of the Company was 98.5 at year-end, compared to 113.0 at the beginning of the year. The market value of the Company at year-end was 672 million USD and increased 11% over the year. At year-end, shareholders in Ossur hf. numbered 2,842 compared to 2,956 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: William Demant Invest A/S, with 34.3% and Eyrir Invest ehf. Holding 19.9%.

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

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

Report by the Board of Directors and President and CEO

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

Reykjavik, 4 February 2008

Board of Directors

Niels Jacobsen
Chairman of the Board

Ossur Kristinsson

Thordur Magnusson

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

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

Independent Auditor's Report

To the Board of Directors and shareholders of Ossur hf.

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

Opinion
In our opinion, based on our own audit and the audit reports on the Consolidated 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, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavík, 4 February 2008

Deloitte hf.

Sigurður Páll Hauksson
State Authorized Public Accountant

Þorvarður Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the years 2007 and 2006

	Notes	2007	2006	2007 Q4	2006 Q4
Net sales	6	335,609	252,133	84,870	63,844
Cost of goods sold		(139,911)	(102,756)	(37,041)	(26,945)
Gross profit		195,698	149,377	47,829	36,899
Other income	9	12,033	530	11,205	286
Sales and marketing expenses		(85,553)	(67,620)	(21,592)	(16,758)
Research and development expenses		(20,176)	(17,925)	(5,259)	(4,744)
General and administrative expenses		(62,286)	(36,165)	(16,026)	(9,785)
Restructuring expenses		0	(8,453)	0	(5,453)
Profit from operations		39,716	19,743	16,157	444
Financial income	12	10,590	243	4,751	139
Financial expenses	12	(42,253)	(20,845)	(13,196)	(5,946)
Profit (loss) before tax		8,053	(859)	7,712	(5,363)
Income tax	13	(473)	5,219	(1,064)	1,656
Net profit (loss)		7,580	4,360	6,648	(3,707)
Earnings per Share	14				
Basic Earnings per Share		1.94	1.13	1.62	(0.96)
Diluted Earnings per Share		1.94	1.13	1.62	(0.96)

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

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

All amounts in thousands of USD

31 December 2007 and 31 December 2006

Equity and liabilities

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

All amounts in thousands of USD

Consolidated Statements of Cash Flows for the years 2007 and 2006

	Notes	2007	2006
Cash flows from operating activities			
Profit from operations		39,716	19,743
Depreciation and amortization	16, 18	24,676	19,750
Gain on disposal of assets		113	(28)
Changes in operating assets and liabilities		(2,977)	(6,779)
Cash generated by operations		61,528	32,686
Interest received		10,554	208
Interest paid		(23,376)	(14,917)
Taxes paid		(3,005)	(1,989)
Net cash provided by operating activities		45,701	15,988
Cash flows from investing activities			
Purchase of fixed assets	16, 18	(7,126)	(10,953)
Proceeds from sale of fixed assets		266	257
Acquisition of subsidiaries	32	(10,842)	(169,416)
Changes in financial assets		(79)	1,060
		(17,781)	(179,052)
Cash flows from financing activities			
Proceeds from short-term borrowings		0	153,072
Repayments of short-term borrowings		(87,693)	0
Proceeds from long-term borrowings		15,605	15,829
Repayments of long-term borrowings		(18,945)	(14,978)
Purchases of treasury stock		0	(712)
Paid in share capital	23	65,744	0
Exercised share options		0	986
		(25,289)	154,197
Net change in cash		2,631	(8,867)
Effects of foreign exchange adjustments		1,080	131
Cash at beginning of year		12,178	20,914
Cash at end of year		15,889	12,178
Additional information regarding cash flow	15		

All amounts in thousands of USD

Consolidated Statement of changes in Equity for the period ended 31 December 2007

	Share capital	Share premium	Statutory reserve	Stock option reserve	Hedging reserve	Translation reserve	Accumulated profits	Total equity
Balance at 1 January 2006	4,160	103,119	1,043	0	0	3,771	40,736	152,829
Translation difference of shares in foreign companies						4,176		
Net gains not recognised in the income statement	0	0	0	0	0	4,176	0	4,176
Purchases of treasury stock	(5)	(707)						(712)
Exercised share options	15	971						986
Net profit							4,360	4,360
Balance at 31 December 2006	4,170	103,383	1,043	0	0	7,947	45,096	161,639
Loss on hedge of a net investment in foreign operations						(10,599)		(10,599)
Gain on cash flow hedges					552			552
Translation difference of shares in foreign operations						25,031		25,031
Net gains not recognised in the income statement	0	0	0	0	552	14,432	0	14,985
Issue of ordinary shares	651	65,093						65,744
Charge for the year				332				332
Net profit							7,580	7,580
Balance at 31 December 2007	4,821	168,477	1,043	332	552	22,379	52,677	250,282

All amounts in thousands of USD

Notes to the Financial Statements

1. General information

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

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

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

2. Adoption of new and revised Standards

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these Consolidated Financial Statements regarding the Company's financial instruments and management of capital (see note 31).

3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Basis of consolidation

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

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

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

3.4 Business Combination

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

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

3.5 Goodwill

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

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

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

3.6 Revenue recognition

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

Sale of goods

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

Royalties

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

Interest revenue

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

3.7 Leasing

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.8 Foreign currencies

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

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

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

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

3.9 Borrowing costs

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

3.10 Pension obligation

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

3.11 Taxation

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

3.12 Property, plant and equipment

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.13 Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

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

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

3.14 Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

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

3.15 Provisions

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

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

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

Restructurings

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

Warranties

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

3.16 Risk management

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

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

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

3.17 Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

3.18 Financial liabilities

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

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

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

3.19 Derivative financial instruments

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

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

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

Hedge accounting

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

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

Hedges of net investments in foreign operations

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

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Notes to the Financial Statements

5. Quarterly statements

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

6. Net sales

	2007	2006
Americas	162,025	156,867
EMEA	163,089	85,728
Asia	10,495	9,538
	335,609	252,133

Net sales are specified as follows according to currency:

	2007	2006
US Dollar, USD	166,336	158,979
Euro, EUR	104,777	35,841
British Pound, GBP	26,099	21,857
Canadian Dollar, CAD	15,145	7,290
Swedish Krona, SEK	11,104	15,034
Norwegian Krona, NOK	6,097	6,655
Icelandic Krona, ISK	2,343	2,699
Japanese Yen, JPY	2,195	2,650
Swiss Franc, CHF	1,515	1,128
	335,609	252,133

All amounts in thousands of USD 19

7. Geographical segments

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

2007	Americas	EMEA	Asia	Eliminations	Consolidated
Revenue					
External sales	162,025	163,089	10,495	0	335,609
Inter-segment sales	19,875	62,216	1	(82,092)	0
Total revenue	181,900	225,305	10,496	(82,092)	335,609

Inter-segment sales are calculated from external sales prices.

	Americas	EMEA	Asia	Eliminations	Consolidated
Result					
Segment result	13,938	24,333	240	1,205	39,716
Financial income/(expenses)					(31,663)
Profit before tax					8,053
Income tax					(473)
Net profit					7,580
Other information					
Capital additions	2,939	3,991	196	0	7,126
Depreciation and amortization	16,505	8,138	33	0	24,676

Balance sheet	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007
Assets					
Segment assets	406,366	964,964	3,302	(738,811)	635,821
Liabilities					
Segment liabilities	297,307	602,016	3,555	(517,339)	385,539

2006	Americas	EMEA	Asia	Eliminations	Consolidated
Revenue					
External sales	156,867	85,728	9,538	0	252,133
Inter-segment sales	16,148	72,111	0	(88,259)	0
Total revenue	173,015	157,839	9,538	(88,259)	252,133
Result					
Segment result	(1,075)	22,592	1,654	(3,428)	19,743
Financial income/(expenses)					(20,602)
Profit before tax					(859)
Income tax					5,219
Net profit					4,360

All amounts in thousands of USD

	Americas	EMEA	Asia	Eliminations	Consolidated
Other information					
Capital additions	4,386	6,471	96	0	10,953
Depreciation and amortization	15,521	4,220	9	0	19,750

Balance sheet	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006
Assets					
Segment assets	386,960	740,722	3,924	(518,854)	612,752
Liabilities					
Segment liabilities	308,242	546,089	3,197	(406,415)	451,113

8. Business segments

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

Net sales are specified as follows according to product lines:

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

9. Other Income

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

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

All amounts in thousands of USD 21

10. Salaries

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

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

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

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

Management salaries and benefits

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

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

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

All amounts in thousands of USD

11. Fees to Auditors

	2007	2006
Audit of Financial Statements	730	436
Review of Interim Financial Statements	416	289
Other services	229	620
	1,375	1,345

12. Financial income / (expenses)

Interest income and (expenses) are specified as follows:

	2007	2006
Financial income:		
Bank deposit	1,527	97
Income from financial assets	346	56
Other interest income	17	89
	1,890	243
Fair value changes of derivatives	8,700	0
	10,590	243
Finance costs:		
Interest on bank overdrafts and loans	(25,167)	(15,084)
Interest on obligations under finance leases	0	(12)
Other interest expenses	(551)	(170)
	(25,718)	(15,266)
Exchange rate differences	(16,535)	(5,579)
	(42,253)	(20,845)

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

13. Income tax

Income tax is specified as follows:

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

All amounts in thousands of USD

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

14. Earnings per share

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

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

	Q4 2007	Q4 2006
Net profit (loss) for Q4	6,648	(3,707)
Total average number of shares outstanding during Q4 (in thousands)	410,571	384,922
Total average number of shares including potential shares (in thousands)	410,213	384,922
Basic Earnings per Share (US cent)	1.62	(0.96)
Diluted Earnings per Share (US cent)	1.62	(0.96)
Cash Earnings per Share	3.22	0.38
Diluted Cash Earnings per Share	3.22	0.38

15. Additional information regarding cash flow

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

16. Property, plant and equipment

Operating fixed assets are specified as follows:

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

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

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

The following rates are used for the depreciation:
Buildings & sites 2 to 5%
Machinery & equipment 10 to 20%
Fixtures & office equipment 10 to 34%

All amounts in thousands of USD

17. Goodwill

	31.12.2007
Cost	
At 1 January 2007	316,593
Arising on acquisition of subsidiaries	7,186
Addition due to previous acquisitions	1,038
Exchange differences	17,542
At 31 December 2007	342,359
Carrying amount	
At 31 December 2007	342,359
At 31 December 2006	316,593

18. Other intangible assets

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

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

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

The intangible assets included above have finite useful lives, over which the assets are amortized.
These intangeble assets will be amortized on a straight line basis over their useful lives. The amortization charge for each period is recognised as expense on the following bases:

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

All amounts in thousands of USD

Notes to the Financial Statements

19. The Consolidation

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

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

All amounts in thousands of USD

20. Financial assets

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

21. Inventories

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

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

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

22. Accounts and other receivables

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

The average credit period on sales of goods is 55 days. Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. The directors consider that the carrying amount of receivables approximates there fair value.

All amounts in thousands of USD 28

Ageing of accounts receivables

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

Movement in the allowance for doubtful accounts

	2007	2006
At 1 January	(1,157)	(963)
Impairment losses recognised on receivables	(2,157)	(496)
Amounts written off as uncollectible	(421)	339
Exchange rate difference	(59)	(42)
At 31 December	(3,794)	(1,162)

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

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

23. Issued capital

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

	Shares	Nominal value
Total share capital at year-end	423	4,821

Shares issued and outstanding at period-end totalled of 423,000,000. The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:	Share capital	Share premium	Issued capital
Balance as of 1 January 2006	4,160	103,119	107,279
Purchases of treasury stock	(5)	(707)	(712)
Exercised share options	15	971	986
Share capital as of 1 January 2007	4,170	103,383	107,553
Issue of ordinary shares	651	65,093	65,744
Balance at 31 December 2007	4,821	168,477	173,298

24. Reserves

	Statutory reserve	Hedging reserve	Share option reserve	Translation reserve	Total reserves
Balance at 1 January 2006......................	1,043	0	0	3,771	4,814
Transl. diff. of foreign operations........	0	0	0	4,176	4,176
Balance at 1 January 2007......................	1,043	0	0	7,947	8,990
Gain on cash flow hedges.....................	0	552	0	0	552
Charge for the year................................	0	0	332	0	332
Loss on hedge of a net investment......	0	0	0	(10,599)	(10,599)
Transl. diff. of foreign operations........	0	0	0	25,031	25,031
Balance at 31 December 2007..............	1,043	552	332	22,379	24,307

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

25. Retained earnings

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

26. Stock option contracts and obligations to increase share capital

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

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

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

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 5 February 2007	1,848,000	2/5/2007	12/1/2011	113.4	109.5
Issued 8 February 2007	1,250,000	2/5/2007	12/1/2011	113.4	109.0

All amounts in thousands of USD

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

	1.1-31.12 2007		1.1-31.12 2006	
	Number of shares (in Thousands)	Weighted average contract rate (in ISK)	Number of shares (in Thousands)	Weighted average contract rate (in ISK)
Granted during the year	3,098	113.40	0	0
Outstanding at the end of the year....................................	3,098	113.40	0	0

27. Borrowings

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

Summary of borrowing arrangements

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

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

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

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

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

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

Ossur uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of USD 140 million and of EUR 48,6 million have been made to swap floating interest rates to weighted average fixed interest rates of 5.99 including margin for periods up until 2012.
During the year a total gain of USD 847 thousand was recognized in the Income Statement due to the swap agreements.

28. Deferred tax asset / (liability)

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

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

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

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

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

29. Provisions

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

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

(ii) The restructuring provision is related to the acquisition of Gibaud in December 2006.

All amounts in thousands of USD

	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January 2007	2,745	7,059	1,148	10,952
Additional provision recognised	1,836	0	776	2,612
Utilization of provision	(387)	(4,460)	0	(4,847)
Exchange differences	0	1,189	135	1,324
At 31 December 2007	4,194	3,788	2,059	10,041

30. Other liabilities

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

31. Financial instruments

31.1 Capital risk management

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

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

Equity ratio

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

The equity ratio at the year end was as follows:

	31/12/2007	31/12/2006
Equity	250,282	161,639
Total assets	635,821	612,752
Equity ratio	39.4%	26.4%

All amounts in thousands of USD

31.2 Significant accounting polices

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

31.3 Financial risk management objectives

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

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

31.4 Foreign currency risk management

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

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

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

Foreign currency sensitivity analysis

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

The following table details the Company´s sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where USD weakens 10% against the relevant currency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

All amounts in thousands of USD

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

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

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

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

Forward foreign exchange contracts

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

31.5 Interest rate risk management

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

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

Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates to fixed with an average weighted interest rate of 5.99% including margin for periods up to 2012. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

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

All amounts in thousands of USD

31.6 Liquidity risk management

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

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

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
2007					
Borrowings	6.07%	109,721	198,244	54,676	362,641
Non-interest bearing liabilities	-	45,899	0	0	45,899
		155,620	198,244	54,676	408,540
2006					
Borrowings	5.97%	185,600	130,003	151,169	466,773
Non-interest bearing liabilities	-	41,808	0	0	41,808
		227,408	130,003	151,169	508,581

32. Acquisition of Somas

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

	Acquisition 2/7/2007
Net assets acquired:	
Operating fixed assets..	90
Trademarks..	34
Customer relationship..	3,260
Other intangible assets	14
Inventories..	732
Other current assets..	1,224
Bank balances and cash..	213
Deferred tax liability..	(879)
Current liabilities..	(819)
	3,869

All amounts in thousands of USD

Goodwill	7,186
Total consideration satisfied with cash	11,055

Net cash outflow arising on acquisition:

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

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

33. Operating lease arrangements

Payments recognised as an expense:

	2007	2006
Minimum lease payments	7,645	5,739

Non-cancellable operating lease commitments

	31.12.2007	31.12.2006
Not longer than 1 year	7,838	5,104
Longer than 1 year and not longer than 5 years	20,418	14,287
Longer than 5 years	15,760	7,256
	44,016	26,647

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

34. Litigation

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

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

All amounts in thousands of USD 37

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

All cases are in progress.

35. Insurance

	Insurance value	Book value
Fixed assets and inventories	127,135,031	101,286,402

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

36. Approval of the Financial Statements

The Financial Statements were approved by the board of directors and authorised for issue on 4 February 2008.

All amounts in thousands of USD