



Life Without Limitations

milestones



Ossur recognized with the Frost & Sullivan 2006 Innovative Technology Award. Ossur received the award for its product line, Bionic Technology by Ossur. This is the second consecutive year that Ossur's bionic technology has received a Frost & Sullivan award.



Organizational changes initiating more focus on Asia. A new company was formed; Ossur Asia in Shanghai.



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



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



Medical AB Karlsson & Bergström AB and Century XXII Innovations Inc.





Stock Exchange.



Ossur launches the RHEO KNEE ' The Knee is based on an innovative design using electronics and hydraulics technology to adjust the motion of the knee to the gait of the user.



Ossur granted its



Ossur's PROPRIO FOOT™,

deserved attention.

the world's first intelligent t

module, was featured in The

New York Times and received



Ossur hosts its first Capital Market Day, inviting investors, analysts and other stakeholders to learn more about the Company's business and its future goals.



INNOVATION S P O R T S

Ossur acquires Innovation Sports Inc., a US-based developer and manufacturer of ligament braces,

for USD 38.4 million.

World Economic Forum's for Ossur's Bionic platform which pushes the boundaries of existing functional capabilities.



Unloader One a new osteoarthritis knee brace, utilizing the technology in the Unloader knee brace and the silicone technology and know-how Ossur has used in prosthetics. This project has proven Ossur's ability to leverage technical knowledge and introduce product innovation into the bracing and support sector.



Technology Pioneers for 2006 Technology, a new technology



Generation II Group, a leading company in the design and manufacture of OA braces in North



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

ÖSSUR

GIBAUD

Ossur acquires the Gibaud Group in France for USD 132 million. The Gibaud Group is a local leader in the design, production and distribution of medical devices used in non-invasive orthopaedics.



Ossur receives this award.

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DETERMINATION LEADS TO SUCCESS

Ossur's year 2006 was characterized by the introduction of breakthrough bionic products to the market, successful acquisitions and integration efforts following acquisitions made in the past two years.

Our most complex R&D projects to date received well-deserved attention and international recognition.

In 2006 we launched two bionic products, the PROPRIO FOOT™ and the POWER KNEE™, both of which are the first of their kind in the world. They have been well received by the O&P community as well as the general public and confirm Ossur's position as the technology leader in the prosthetics industry.

The technology behind the bionic product line has for the second consecutive year has received awards from Popular Science Magazine and Frost & Sullivan. Furthermore, The New York Times featured the PROPRIO FOOT™ in October and made an impressive online animation of the function of the foot. Recognition and awards such as these are important for us and inspire us further in our R&D efforts.

A few years back, we decided to direct our growth further into the bracing and support sector of orthopaedics. We said that we would focus on leveraging our technical platforms, material expertise and biomechanical understanding. Last year's result of these efforts is the Unloader[®] One knee brace, the ultimate in pain relief for osteoarthritis patients.

In the beginning of the year we were honoured by the World Economic Forum as they selected Ossur as one of the Technology Pioneers of 2006. Technology Pioneers are companies that have been identified as developing and applying highly transformational and innovative technologies in various areas. The Forum brings together companies that are helping to shape not just the future of technology and commerce, but also the future of our global culture. It is important that those involved develop a better understanding of one another. This presents a unique opportunity for Ossur.

In last year's annual report we published our goals for 2010 to expand the business to USD 750 million in sales and an EBITDA margin of 23%. These are ambitious goals and to reach them we will have to continue to consolidate the market and acquire companies. Our strategy has been to further expand into the bracing and support sector and the larger field of orthopaedics, as well as strengthen our European market, and we will continue to exploit all opportunities.

In January we acquired the US company Innovation Sports, a manufacturer of ligament braces, which positioned Ossur at the leading edge in the largest segment of the bracing and support market. In December, we reached another milestone when we acquired the Gibaud Group in France. The Gibaud Group is a local leader in the design, production and distribution of medical devices, specializing in

bracing, soft goods and compression therapy products, the latest being a new product segment for Ossur.

The Company has changed dramatically following the acquisitions of the last two years. Ossur has transformed from being a leading company in the field of prosthetics into a global non-invasive orthopaedics company and one of the major players in that field. We are determined to become the global leader in non-invasive orthopaedics.

In September we made some organizational changes focusing on three major profit units; Ossur Americas, Ossur Europe and Ossur Asia. The organizational changes accommodate our emphasis on Asia. We opened a new office for Ossur Asia in Shanghai, China and are looking forward to building up further sales and R&D activities in the next several years in Asia.

Following our acquisition of Gibaud we announced that an equity offering is planned to take place during 2007. In the past we have enjoyed the trust from our investors and the investment community. Last June we received the Nordic IR Awards, for best investor relations by an Icelandic Company which demonstrates to us that our commitment and efforts in our communication with the investors are recognized and appreciated. Last fall ABG Sundal Collier initiated analyst coverage of Ossur which is an important step in our plans for future equity offerings and efforts in attaracting attention of international investors.

Our goals for the future are very ambitious. We constantly observe from the users of our products that determination and focus on one's ultimate goal, coupled with hard work, inevitably lead to success. Take Oscar Pistorious, for example. Oscar is a 20-year-old double amputee, the world record holder in his category for the 100, 200 and 400 meter sprint. His goal is to compete against able-bodied athletes in the 2008 Olympic Games. Oscar is using Ossur's running legs to achieve this goal, and we are proud of our contribution to his achievements. Sponsoring outstanding achievers like Oscar and others on Team Ossur, as well as maintaining close contact with our users, is very rewarding and confirms that anything is possible when one's mind is set.

2006 was a year of integration and restructuring but also one of great technological accomplishments. We are proud of our efforts and look optimistically to the future, committed to further achievements that will continue to deliver successful outcomes for all of our stakeholders.

Jon Sigurdsson President & CEO



- •• FAVOURABLE MARKET DRIVERS
- •• GROWING CUSTOMER BASE

THE MARKET

IN THE LAST 6 YEARS OSSUR HAS TRANSFORMED FROM AN AMBITIOUS PROSTHETIC COMPANY INTO A MAJOR PLAYER IN NON-INVASIVE ORTHOPAEDICS.

Orthopaedics is estimated to be a \$20 billion segment of the \$200 billion medical device market. The areas that Ossur operates in are bracing and support, prosthetics and compression therapy (phlebology).

INDUSTRY DYNAMICS

Aging population, rise in disposable incomes and higher demand for the greater mobility of the individual and quality of life are strong underlying market fundamentals in the orthopaedic industry.

The percentage of the population that is 65 years or older is rising in all OECD countries, and is expected to continue doing so. In the USA alone the ratio of people 65 or older is 37% and expected to rise to 55% in 2020. In the EU countries the increase for the same period is from 36% to 45%, and an increase from 29% to 39% for the OECD countries is projected in total.

These increases in the proportion of the population aged 65 and older will underpin market growth in the prosthetic industry, as an aging society brings an increase in the frequency of vascular diseases and diabetes, which are the main causes of amputation.

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

Healthcare markets all over the world are characterized by public regulations, complex procurement processes and limited sensitivity to economic fluctuations. The procurement process is generally quite complex in the medical industry and varies from country to country, depending on the structure of the healthcare system. Orthopaedic industry stakeholders are categorized in four groups, each influencing decision to purchase a product or service. The consumers of products, end-users and patients, do not make final decisions on which product to buy, but rather follow the advice of certified specialists, such as O&P workshops, doctors, hospitals, physical therapists or pharmacies. The product is paid for by a third party, such as government healthcare program or insurance companies. In recent years the industry has seen greater independence and demands from users themselves, influenced by trade, medical associations and users' associations.

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

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

PROSTHETICS

Prosthetics is the sector of the medical device market dealing with the production and fitting of artificial limbs.

The need for amputation in the markets Ossur operates in is primarily due to vascular diseases, such as arteriosclerosis, and ailments resulting from diabetes. These diseases account for about 40% and 34%, respectively, of all amputation cases. Over 80% of all amputees are lower-

limb amputees, and the majority of people losing limbs are older than 50 years.

The world-wide prosthetic market is estimated to be over \$500 million, with the annual growth figure of 3-5%.

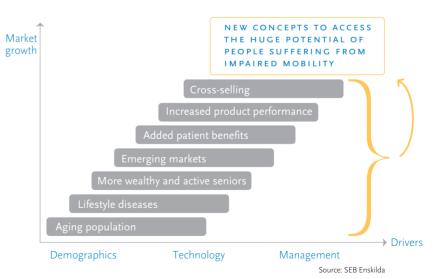
Traditionally fragmented, the prosthetic industry has experienced rapid consolidation in recent years, sparked by increased demand for full service providers. Ossur initiated the consolidation process within the sector in 2000, thus becoming the second largest prosthetic company in the world, after the German company Otto Bock.

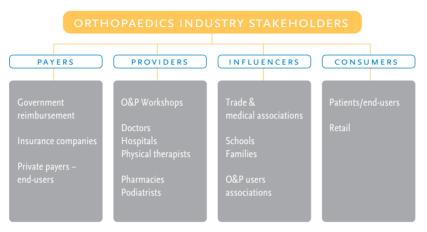


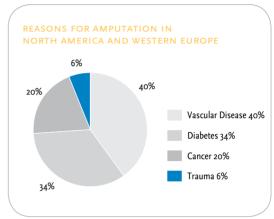
AGING OF POPULATION

60% CAGR = 2.5%50% 40% 30% 20% 10% 2007E 2009E 2011E 2013E 2015E 2017E 2008E 2010E 2012E 2014E 2016E 2018E Source: U.S. Census Bureau

STRONG UNDERLYING MARKET GROWTH DRIVERS







BRACING AND SUPPORT

The bracing and support branch is classified as a non-invasive area of orthopaedics, estimated at \$1,600 million. The sector shows stable annual growth at about 3-6%.

This area of the orthopaedic industry offers solutions to remedy congenital deformities, osteoarthritis and damaged ligaments, often caused by illnesses connected with old age or lifestyle, as well as sports-related injuries.

Osteoarthritis is a condition in which low-grade inflammation results in pain in the joints, caused by wearing of the cartilage that covers and acts as a cushion inside joints. As the bone surfaces become less well protected by cartilage, the patient experiences pain with weight bearing, including walking and standing. Osteoarthritis affects nearly 21 million people in the United States, accounting for 25% of

visits to primary care physicians and half of all non-steroidal anti-inflammatory drugs prescriptions. Osteoarthritis is treated with pain medication and OA bracing in early and mid-stages of the diseases and with major surgical procedures, such as osteotomy and arthroplasty in the advanced stages.

The bracing and support market is largely unconsolidated, giving the market players opportunities to expand via acquisitions.

PHLEBOLOGY

Phlebology or compression therapy is a preferred treatment for venous ulcers and edema that has been used for more then a century. It involves the application of external pressure on the vascular elements to assist in pumping blood back to the heart. As with the other segments of

the orthopaedics industry, the major industry driver is the aging population and increase in vascular diseases. The occurrence of the venous stasis ulcers increases by three-fold in the patient population over 65 years. Compression therapy is prescribed by medical professionals. There is a nearly 70% recurrence rate of venous stasis ulcers.

According to a Frost & Sullivan report from 2005, the total compression therapy market is expected to grow at a compounded annual growth rate (CAGR) of 7.4% during the period 2004-2011.

Ossur has expanded into the phlebology segment with the acquisition of the leading company in French, Gibaud Group.

ORTHOPAEDICS MARKET

SEGMENTATION OF THE \$20 BILLION ORTHOPAEDICS MARKET

	BRACING & SUPPORT	RECON- STRUCTIVE	SPINAL	TRAUMA	ARTHROS- COPY	BONE CEMENT	BONE STIMULATION	BONE GRAFTS	PROS- THETICS	PAIN MANAG.	ANC. PROD.	COMPR. THERAPY
MARKET SIZE	\$ 1,600m	\$ 8,000m	\$ 3,500m	\$ 2,400m	\$ 1,300m	\$ 400m	\$ 140m	\$ 790m	\$500-600m	\$ 170m	\$ 420m	\$ 750m
ANNUAL GROWTH	4-6%	12-13%	14-16%	8-9%	10-11%	4-5%	4-5%	24-26%	3-5%	Not known	5-6%	7-8%
DESCRIP- TION	Products generally broken down into bracing products and soft goods	Recon- structive orthopae- dic implants, used to replace joints, hips, etc.	Fusion systems comprised of plates, rods and screws, used in conjunction with bone grafts, to relieve pain	Products aimed at the manage- ment of fractures	Devices used to examine / treat in a less invasive fashion	Used to secure cemented implants to bone	Electrical and ultrasound stimulation to treat problematic fractures	Used as an alternative to autograft for bone graft procedures	Artificial limbs for amputees	Treatment for reducing pain and swelling	Diverse group of orthopaedic products, incl. navigation systems, powered instr. or patient care	A prefered treatment for venous ulcers and edema.
MAJOR PLAYERS	DJO, Biomet, Encore, Ossur, Otto Bock, Bauerfeind	Biomet, Exactech, JNJ, Smith & Nephew, Stryker, Wright, Medical, Zimmer	Abott, Arthro Care Biomet, Interpor, Cross, JNJ, Kyphon, Medtronic, Smith & Nephew, Stryker, Zimmer	Biomet, JNJ, Orthofix, Smith & Nephew, Stryker, Synthes / Stratec, Zimmer	Arthrex, Artho Care, Biomet, CONMED, Genzyme, Biosurgery, JNJ, Smith & Nephew, Stryker	Biomet, JNJ, Stryker, Smith & Nephew	Biomet, Orthofix, DJO, Smith & Nephew	Biomet, Exactech, Interpore, Cross, JNJ, Medtronic, Stryker, Smith & Nephew, Zimmer and others	Otto Bock, Ossur	Orthofix, Iflow	CONMED, JNJ, Medtronics, Smith & Nephew, Stryker, Zimmer	DJO BSN-Jobst, Bauerfeind, Gibaud /Ossur, JNJ, Lohman &Rauscher, Medi, Paul Hartman, SAI, Sigvars, Smith & Nephew, Tusane

THE OSSUR BRAND



Life Without Limitations

THE OSSUR BRAND IS EMBODIED IN THE WORDS PARTNERSHIP AND DESIGN. OUR CORPORATE VALUES — HONESTY, FRUGALITY AND COURAGE — FORM THE FOUNDATION FOR OUR BRAND. THE VALUES ARE HOW WE BEHAVE, WHILE THE BRAND IS OUR PROMISE TO CUSTOMERS AND WHAT WE AS A COMPANY STAND FOR.

PARTNERSHIP

A business partner, creating mutually beneficial relationships and offering solutions simplifying our customer's business, increasing efficiency and revenue.

A clinical partner, combining products with services to deliver successful patient outcomes.

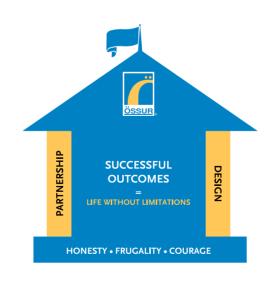
DESIGN

Innovation that is focused on product quality and clinical outcome.

Portfolio design – products that work in conjunction with each other and are designed holistically.

Comfort and function to achieve maximum safety, easy fitting and patient compliance.

Aesthetics with a view to offering a consistent, systematic approach to the look and feel of products.



SUCCESSFUL OUTCOMES

At Ossur, our work is as much about people as it is about products. Our goal is their comfort, confidence and rehabilitation – helping them to lead a life without limitations. It is our dedication to continuous improvement through the most advanced technologies and designs, the most innovative thinking and strong business and clinical partnerships that will deliver the outcomes they seek. We never forget that every time we develop a product or service, we are helping someone else to build a better life.

Together we form a strong team, always looking for ways to improve on what we do. Our work revolves around successful outcomes for both clinicians and patients, and it is this unstinting focus on business and clinical outcomes that will differentiate us from our competitors and fuel our future growth.

TRANSITIONAL BRANDING

IN 2006, THE ACQUIRED BRACING & SUPPORT COMPANIES UNDERWENT A TRANSITIONAL BRANDING PHASE. THE PURPOSE OF THE TRANSITIONAL BRANDING IS TO SHIFT ANY BRAND EQUITY OF THE AQUIRED COMPANIES TO OSSUR AND TO BUILD OSSUR BRAND RECOGNITION IN THE CLIENT BASE OF THE ACQUIRED COMPANY.

THE TRANSITIONAL BRANDING PHASE HAS SPANNED 12-18 MONTHS AND CONCLUDES IN EARLY 2007, FROM WHICH POINT ALL OF THE COMPANIES WILL BE KNOWN SOLELY AS OSSUR.



ROYCE MEDICAL®

BEFORE

AFTFR

ROYCE MEDICAL®



ACQUIRED COMPANY CO-BRANDED WITH OSSUR



• TWO MAJOR ACQUISITIONS

• INTEGRATION AND RESTRUCTURING

OPERATIONS

Ossur is a global orthopaedics company, a leader in the development, manufacture, distribution, sales and marketing of bracing and support products and prosthetics. Ossur pioneers award-winning designs – including its bionic technologies, partnering with health practitioners to deliver successful clinical and business outcomes. The Company's overall aim is to be the principal source of innovative orthopedic products, enabling people to live a life without limitations.

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

FUTURE VISION

Ossur's vision is to be a leader in the orthopaedics industry. For many years Ossur has been a leading company in the design and manufacture of prosthetics and intends to attain the same status in the larger field of orthopaedics.

The Company's long-term goal is to expand the business to 750 million USD in sales by the end of 2010 and the EBITDA margin to 23%.

To be able to reach this ambitious goal, Ossur plans to grow organically 8-12% per annum, as well as continue to acquire companies that are appropriate strategic fits. The market Ossur operates in is very fragmented, especially in Europe, leaving many opportunities for consolidation.

The year 2006 was a year of transformation for Ossur. The Company's sales grew by 57% and totaled USD 252 million.

ORGANIZATIONAL STRUCTURE

Ossur's headquarters are located with the parent company, Ossur hf., in Iceland. Ossur operates 14 subsidiaries in nine countries: Ossur hf. in Iceland, Ossur Europe in the UK, the Netherlands and Sweden, Gibaud in France, Ossur Asia in China and Australia and Ossur Americas in the US and Canada.

To support the continuous growth and to strengthen the infrastructure of the company, the organizational structure of the company was changed in the beginning of September. Ossur North America becomes Ossur Americas, responsible for sales in North America and Latin America. Ossur Europe is responsible for sales in Europe, including the Nordic region and former international markets in Europe. The newly established Ossur Asia is responsible for sales in Asia and Australia. Research and development activities will also be conducted in Ossur Asia, as well as administration of the Company's outsourcing of manufacturing to Asia. Ossur Asia's offices are in Shanghai, China. The managing director is Arni Alvar Arason, who has been with Ossur since 1996.

Financial reporting by the new geographical segmentation will start 1 January 2007.

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

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

ORGANIZATIONAL CHART

Braces and supports are manufactured at Ossur hf. in Iceland and Ossur North America in California and a Gibaud in France. Cervical collars are produced in New Jersey, whilst almost all other production of off-the-shelf products is outsourced to Asia.

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

OSSUR NORTH AMERICA

Ossur North America is the Company's largest sales unit. In 2006 Ossur North America's sales amounted to USD 156 million and accounted for 62% of the total sales of the Company.

The US operation is in charge of sales, marketing, manufacturing, distribution and services. The operation sells direct to prosthetists, orthopaedic surgeons, hospitals and clinics. Ossur has an agreement with Hanger Orthopedic Group, the largest network of O&P workshops in the US, on the sale of Ossur products in Hanger-owned workshops.

AMERICAS
Eythor Bender

ASIA
Arni A. Arason

FINANCE
Hjorleifur Palsson

M & O
Egill Jonsson

R & D
Hilmar B. Janusson

In 2006 the main focus has been on restructurin,g following the acquisitions of Royce Medical in 2005 and Innovations Sports in 2006. The production of off-the-shelf bracing and support products has been outsourced to Asia and the facility in Seattle closed down. Back office functions have been consolidated in Aliso Viejo, and the Jerome and Philadelphia Collar operations have been consolidated in Paulsboro, NJ.

Consolidation of sales forces on the bracing and support side has taken a lot of effort. The sales force is now or-

ganized geographically making all cooperation within the same region more effective.

OSSUR FUROPE

In 2006 Ossur Europe's sales amounted to USD 80 million, accounting for 32% of Ossur's total sales. Ossur Europe is in charge of sales, marketing, distribution and services in Europe, including the Nordic counries. Its largest market areas are the UK, Germany, France and Scandinavia.

In 2006 Ossur Europe has been focused on the integration of IMP, now Ossur UK, and the orthopaedic distributor GBM in Sweden, as well as bringing the new bracing and support products into the sales channels. Ossur UK relocated to Manchester, and inventory was centralized in Eindhoven.

OSSUR ASIA

The new unit Ossur Asia was established in September 2006. Ossur Asia includes sales, R&D and other operational functions. Ossur Asia's market stretches from Pakistan to New Zealand, with key focus markets currently being Japan, Australia, China, Korea and Taiwan.

The reason for Ossur selecting China as a location for Ossur Asia headquarters is China's market size and growth potential as well as future manufacturing activities in China.

MANUFACTURING & OPERATIONS

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

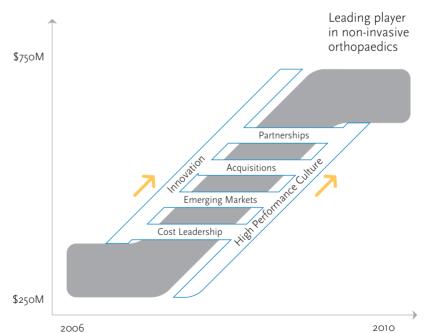
Ossur's largest prosthetic production unit is in Iceland, except for mechanical knees, which are produced in Michigan, USA. The manufacture of bracing and support products is mainly outsourced to Asia, but custom-made braces are manufactured in California and Vancouver. Cervical collars are produced in New Jersey. Gibaud Group,

acquired in late December 2006, has manufacturing units in France. The manufacture of bracing and support products is in St-Etienne, and the manufacturing of compression therapy products is in Trévoux, close to Lyon.

Royce Medical had developed production processes for outsourcing to subcontractors. They had been outsourcing to Asia since 1982, among the first companies in the orthopaedic industry to outsource production to China. Know-how in this field is very valuable, and Ossur intends to leverage those strategic advantages going forward. The Company believes that the combination of state of the art R&D function, low-cost production and a highly effective sales team will make the company highly competitive for years to come.

VISION 2010 AND STRATEGY

BECOMING A LEADING PLAYER IN NON-INVASIVE ORTHOPAEDICS WITH \$750 MILLION IN SALES AND A 23% EBITDA MARGIN



STRATEGY:

- Technical innovation leadership
- Sales and operational cost leadership
- Increase focus on emerging markets
- Consolidate through acquisitions
- Add value through partnerships

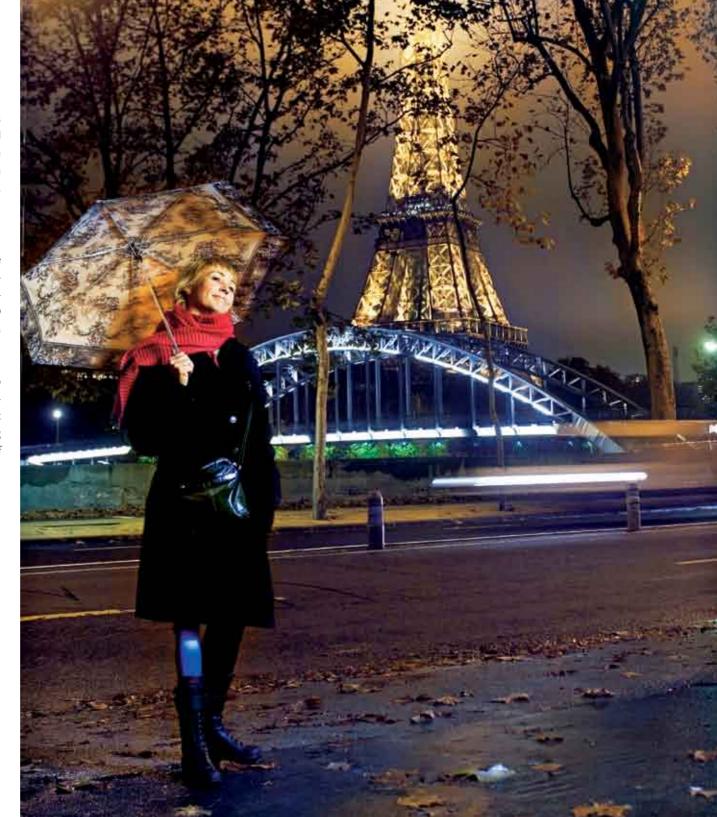
...supported by a high-performance culture and adequate financial resources.

During 2006 a prosess to outsourse off-the-shelf products manufactured in the US to Asia was started, and by the end of the year most of these products were manufactured in Asia. In order to ensure quality and minimize production costs, Ossur works closely with each of its subcontractors, and each subcontractor gets frequent reviews.

R&D AND PRODUCT DEVELOPMENT

The Company has always seen R&D as essential to future development and is determined to maintain its technological competency through investment in research and development activities. In 2006 Ossur's investment in R&D amounted to USD 13.8 million or 5.5% of the Company's total sales, excluding amortization of intangible assets.

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 current momentum, as well as continuing R&D at its current pace, places Ossur at the forefront of innovation.



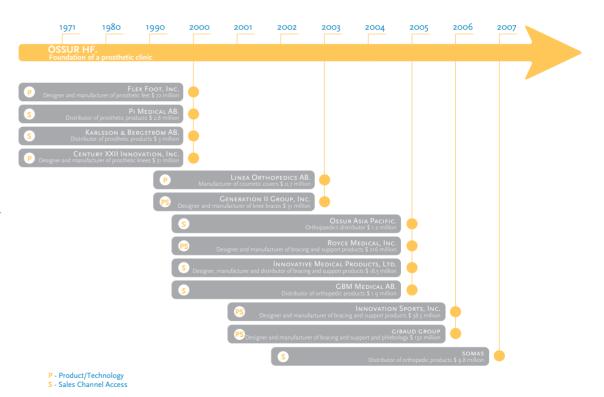
ACQUISITIONS

On 18 January 2006, Ossur announced that it had signed an agreement on the acquisition of Innovation Sports Inc. for USD 38.4 million. Innovation Sports is a US-based developer and manufacturer of ligament braces.

On 22 December Ossur acquired Gibaud Group in France for USD 132 million. The Gibaud Group is a local leader in the design, production and distribution of medical devices used in the non-invasive orthopaedics sector, specializing in bracing, soft goods and compression therapy products (phlebology).

In February 2007 Ossur acquired the Dutch company Somas for USD 9 million. Somas is a leading distributor of bracing and support products in the Benelux countries. Since 2005 Ossur has been a significant player in the bracing and support sector of orthopaedics. The Company's strategy is to become a leader in the orthopaedics industry, and the acquisitions in 2006 are important steps towards this goal. In 2005 and 2006 Ossur has made four major acquisitions, focusing on strengthening bracing and support products as well as sales channels. Through the acquisitions of Royce and Innovation Sports in the US, the company has become a significant player in orthopaedics,

ACQUISITIONS HISTORY



MAJOR ACQUISITIONS IN 2005 AND 2006

	ROYCE MEDICAL® An Ossur Company	MEDISTOX An Ozur Company	() INNOVATION S P O R T S	GIBAUD
PURCHASE DATE	August 2005 \$216 million	December 2005 \$18.5 million	January 2006 \$38.4 million	December 2006 \$132 million
BUSINESS DESCRIPTION	Manufacturing, sales and distribution of bracing and support products	Manufacturing, sales and distribution of bracing and support products	Manufacturing, sales and distribution of ligament braces	Manufacturing, sales and distribution of bracing and support- products and compres sion therapy products
STRATEGIC RATIONALE	Product Sales Channel Access Outsourcing know-how	Sales Channel Access	Product Sales Channel Access	Product Sales Channel Access
FINANCIALS	Sales: \$68 million EBITDA margin: 26%	Sales: \$14 million EBITDA margin: 20%	Sales: \$19 million EBITDA margin: 19%	Sales: \$55 million EBITDA margin: 21%

among the 3-4 largest players in the US. The acquisitions of Innovative Medical Products in the UK, Gibaud in France and GBM Medical in the Nordic region have given Ossur

good market access in these areas, establishing Ossur as one of the major players in Europe. In addition, Gibaud brought in a new dynamic product segment, phlebology.

The acquisitions are in line with Ossur's overall acquisition strategy and ambition of becoming a top player in non-invasive orthopaedics.



R&D AND PRODUCT DEVELOPMENT

Ossur's research and development department is responsible for overall technical strategies and product management. Altogether 80 people work in five R&D divisions in four countries, strategically located close to the company's marketing and manufacturing units.

Ossur's goal is to be a source of innovative, high-quality orthopaedic products and services. Research and development is essential to the Company's future development. In 2006 Ossur's investment in R&D amounted to USD 13.8 million, or 5.5% of the Company sales, excluding amortization of intangible assets.

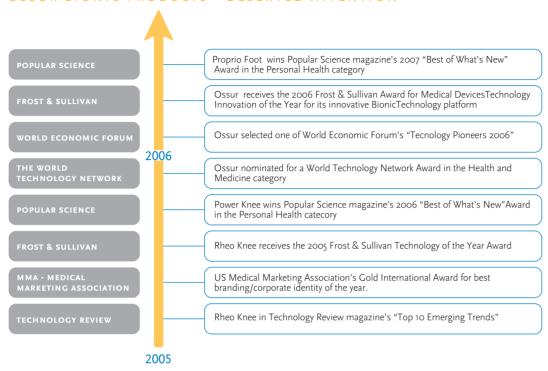
Combining knowledge in material science and engineering, rehabilitation engineering and bionic engineering,

Ossur continues to leverage on different high-technology platforms and material know-how. Successful application of knowledge and expertice in areas of silicone and carbon fiber materials, precision metal machining and bionics have made it possible for Ossur to launch new breakthrough products, such as Unloader One, Proprio Foot and Power Knee, last year.

Launched in the first quarter of 2006, Unloader One is a custom-made osteoarthritis knee brace, in which the engineers of Ossur successfully incorporated their biomechanical understanding and materials expertise, bringing to the market a brace that is comfortable to wear and the ultimate in pain relief for osteoarthritis patients.

Bionic technology offers unprecedented possibilities to physically and virtually reconnect the prosthesis to the human body, as shown in Proprio Foot and Power Knee, prosthetic products belonging to the Bionic line launched in 2006. Ossur's R&D will continue working on the integration of bionic technology into non-invasive orthopaedic solutions, with the aim of overcoming the loss of functions due to amputation by increasing functionality, reducing mental and physical effort, increasing safety, reducing strain and comorbidity for amputees, and stimulating voluntary control and system adaptivity for carefree mobility. The next logical step for the R&D team is applying bionic technology to bracing and supports.

OSSUR BIONIC PRODUCTS - DESERVED ATTENTION







The Company's goal is to diligently protect its intellectual capital, generated through in-house innovation, acquisitions and in-licensing. Given the rapid growth of the Company, the aim of Ossur's constantly developing intellectual property management is to stay in line with overall corporate and product development strategies. One of the measures of Company's emphasis on R&D investment is the number of patents and patent applications. 28 US patents were granted to Ossur last year, which is the Company's record so far. At the end of 2006, Ossur's patent portfolio consisted of 189 US-granted patents and 110 pending applications as well as numerous patents and applications in Europe, China, Canada, Australia and other countries.

PROJECT PORTFOLIO MANAGEMENT AND DESIGN PROCESS

Last year, the R&D project portfolio contained 60 projects. The main goals of product management are to maintain and increase growth and profitability by new product development and development of support products and services.

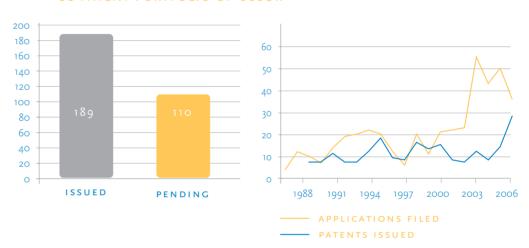
The Company is determined to secure its organic growth through the continuous introduction of new products with a mix of in-house R&D efforts and development partnerships with third parties.

Regardless of whether the projects are in-house projects or cooperation with outside sources, Ossur's R&D department selects and manages them by using an internally developed project selection model that helps management compare and rank R&D projects. The model is mainly based on two methods. Each project in the portfolio is graded on various pre-identified success factors that carry different weights determined by AHP. With the help of the model, projects are ranked to maximize the overall scores given the constraints determined by the R&D strategy that has been set by senior management. The goal of project portfolio management is to maximize the value of investment, and use resources to ensure balance and connection with the overall strategies of the Company.

- TWO BREAKTHROUGH BIONIC PRODUCTS LAUNCHED
- 29 US PATENTS GRANTED IN 2006

Since the year 2000, Ossur has been designing products within a five-stage design process that provides a standardized methodology for project management and ensures quality outcome, shortening the time to market. In moving through the design process, new products must fullfil certain criteria before passing the "gate" to the next design phase. By structuring the design process this way, Ossur ensures that a product launch is comercially viable. Whether applied to in-house development or cooperation projects, the process remains effective and transparent, delivering products suiting the medical needs of users and providing evidence providing efficiency.

US PATENT PORTFOLIO OF OSSUR













- · Different technology platforms and material know-how successfully applied to create new breakthrough products such as:
 - RHEO KNEE
 - UNLOADER ONE
 - PROPRIO FOOT
 - POWER KNEE



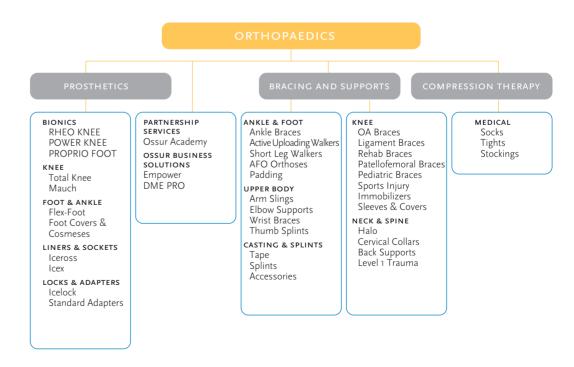


- NEW PRODUCT SEGMENT PHLEBOLOGY
- NEW PRODUCTS, COMBINING MOST EFFECTIVE TECHOLOGIES

PRODUCTS

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

The expertise and technical capabilities of Ossur's growing research and development teams allow the Company to successfully introduce pioneering products that have and continue to make a dramatic impact on the orthopaedic community. Ossur's R&D specialists recognize that providing winning solutions requires a deep understanding of the needs of product users. That is why they consult extensively with medical professionals and patients during product development, always striving to develop products that exceed expectations. Ossur's experienced design engineers and medical professionals continue to raise the standard of innovation for the industry and ensure greater accessibility to the products people need. As for the future, the high level of investment in R&D capabilities and the aggressive pursuit of new knowledge and technologies will maintain the flow of new products and services focused on winning outcomes.



PROSTHETIC PRODUCTS

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

FEET

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

KNEES

Ossur offers eight different knee systems that users can choose from, depending on functionality they are looking for in a knee, build-height and their own activity level. 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 like a shock absorber, to this supposed to be stimulating the flexing action that occurs in the normal knee while walking or running. Mauch's progressively designed hydraulic systems provide amputees with less strenuous and more controlled means of ambulation on varied terrains and in sports activities.

LINERS

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



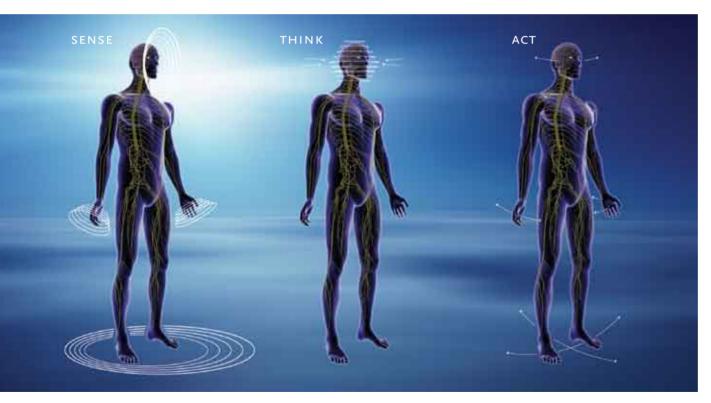
BIONIC TECHNOLOGY BY OSSUR

The term bionic describes the application of engineering systems, especially electronic systems, to the study of biological principles to design lost functions of the body.

Walking relies on constant interaction between body and brain. When a limb is lost, that interaction is severed. Ossur's biomechanical expertise, coupled with cutting edge developments in artificial intelligence, is replacing lost function in a way that is redefining the capabilities of today's prostheses.

Bionic Technology by Ossur is beginning to restore the

true anatomical function displaced by amputation. Intelligent structures used in our products contain sensors, artificial intelligence and actuator technology which can respond in a human-like way to counteract loads, reduce vibration, change shape and enhance fluid and natural motion.



SENSE

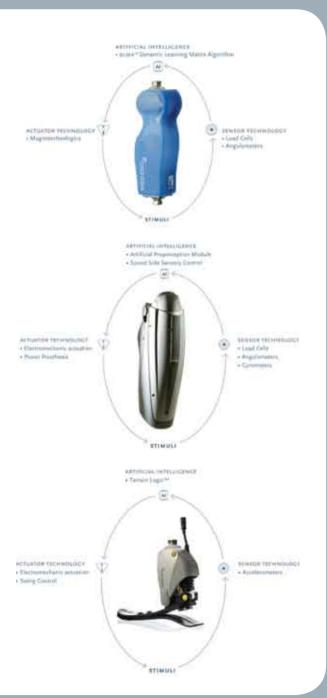
Sophisticated sensor technology mimics the body's mechanoreceptors, providing artificial proprioception (a sense of where the limb is in space) by tracking factors that include load and angular displacement up to a rate of 1600 times per second.

THINK

Patented forms of Artificial Intelligence (AI) process information from the sensors and instigate the most appropriate response for the next step.

W ACT

The AI transmits a constant stream of signals which instruct high-precision actuator technology to act and deliver optimal function.



RHEO KNEE®

The RHEO KNEE® is the world's first microprocessor swing and stance knee system to utilize the power of artificial intelligence. Capable of independent thought, it learns how the user walks, recognizing and responding immediately to changes in speed, load and terrain.

POWER KNEFTM

The POWER KNEE™ works as an integrated extension of its user, synchronizing motion with that of the sound leg.

The world's first powered prosthesis for above-knee amputees, the POWER KNEE offers unprecedented levels of functionality and performance. It replaces true muscle activity to bend and straighten the knee as required.

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

PROPRIO FOOTTM

The world's first intelligent foot module, the PROPRIO FOOT™ provides unprecedented physiological benefits for below-knee amputees. A wide and automated range of ankle flexion with proven Flex-Foot dynamics means function is as close to the human foot as possible today. The PROPRIO FOOT thinks for itself, responding beautifully to changing terrain and transforming the approach to stairs and slopes, as well as level-ground walking. Angling itself appropriately, it also helps amputees to sit and stand up easily and more naturally. The PROPRIO FOOT has calibrated alignment control feature. Overall, the effect is a more balanced, symmetric and confident gait with reduced wear and tear on the back, hips and knees.

BRACING AND SUPPORT

THE DEVELOPMENT OF OSSUR'S BRACING AND SUPPORT PRODUCTS COMBINES SOME OF THE MOST EFFECTIVE TECHNOLOGIES AVAILABLE TODAY WITH OVER 30 YEARS OF DESIGN EXPERIENCE AND A BROAD KNOWLEDGE OF BIOMECHANICS. THE PRODUCT RANGE INCORPORATES EFFECTIVE MATERIALS AND HI-TECH, QUALITY-CONTROLLED PROCESSES THROUGHOUT DESIGN AND PRODUCTION.

ANKLE & FOOT SUPPORTS

FOOT ORTHOSES

The Ossur range of prefabricated foot and ankle products resolves a wide variety of biomechanical problems - from ankle instability to foot malalignment. Ossur products uniquely combine clinical efficacy, low-profile designs and energy-return technology.

KNEE BRACES

OSTEOARTHRITIS BRACES

Many people suffer unnecessarily from knee pain caused by osteoarthritis (OA), the degenerative joint disease characterized by breakdown of the joint's cartilage that cushions the ends of the bones. OA knee braces offer a non-invasive, economical treatment option, scientifically proven to relieve pain and improve mobility.

LIGAMENT BRACES

Ossur offers a wide range of options to stabilize, protect and/or rehabilitate knees. The Company's ligament brace lines include unique and innovative custom braces and easy-to-fit prefabricated knee braces. These options offer various features/benefits reflecting the wide range of patients throughout the world.

POST-OPERATIVE BRACES

Post-operative braces allow initial immobilization of the knee joint and can easily be converted to allow a full range of motion. Ossur braces are easy to adjust, offering an accurate fit for individual patients.

WALKERS

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

ANKLE BRACES AND SUPPORTS

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

NIGHT SPLINTS

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

INNOVATIOR DLXTM



UPPER BODY SUPPORT PRODUCTS

WRIST BRACES

Among the product lines for wrist braces offered by Royce Medical are the Form Fit® and Exolite® solutions. By utilizing patented technology, the Form Fit braces offer a one-piece molded pad, providing variations in padding thickness for high comfort, functionality and durability. The Exolite provides treatment of carpal tunnel syndrome by using patented technology to increase comfort and functionality.

THUMB SPICAS

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

NECK & SPINE SUPPORT PRODUCTS

BACK SUPPORTS

The Company offers four different product lines in back supports: 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 Formfit technology in offering a compression-formed lumbar pad providing a firm and comfortable fit. Finally, the Airform Inflatable Back Support is a lumbar support brace with an adjustable air bladder for custom fit and compression in the lumbar area.

CERVICAL COLLARS

The purpose of cervical collars is to alleviate instability of a compressed cervical spine, while being patient-friendly, lightweight and economical.

CASTING & SPLINTS

CASTING TAPE

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

SPLINTING

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

C.TI.2®



MISMI J® COLLAR



C.TI. WRISTTM



PARTNERSHIP & SERVICES

IN ADDITION TO PRODUCT DESIGN, OSSUR STRIVES TO BE PARTNER-ORIENTED, WITH EMPHASIS ON EFFICIENT BUSINESS PRACTICES AND CLINICAL OUTCOME THROUGH DME PRO, EMPOWER, AND EDUCATIONAL PROGRAMS.

DME

DME stands for durable medical equipment. The DME market is the fastest growing segment in the Company's customer range. DME 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 to the public, with or without a prescription. There are approximately 20,000 DME stores and pharmacies in the US selling orthopaedic supplies. To meet the need for more efficient and cost-effective DME business, the Company has designed a specific Internet-based application called DME Pro to help practitioners simplify reimbursement claims entry and collection. This solution also helps increase third-party reimbursements, product approvals, and revenues as they relate to the DME products and services offered. DME Pro also provides users real-time inventory, claims management and patient reporting.

EMPOWER HEALTHCARE SOLUTIONS

This field of activity is selling quality-assured rehabilitation programs, comprehensive training, clinical studies and business consulting for the healthcare market, especially the O&P field.

Empower SMARTTM is the first of many programs to come from Empower-Health Care Solutions, Ossur's fully-owned company. It is a comprehensive quality assurance system, ranging from pre-amputation assessments and communication to surgery techniques, compression therapy, wound care, the first prosthesis and follow-up. In addition to improved results and reduced costs, the program also assists busy practitioners in meeting diverse medical directive requirements for a quality-assured treatment program. The name SMART stands for Standardized Multi-disciplinary Amputee Rehabilitation and Training.

OSSUR EDUCATIONAL PROGRAM

The aim of the Ossur Academy educational program is to further the level of education and quality of knowledge among orthopaedic professionals, patients and their families. An extensive range of seminars and events is offered to professionals to get the most out of Ossur products while exchanging valuable information and experience. The Company's aim is to enable professionals, such as prosthetists and orthotists, to achieve clinical success through accessible information and the services it provides.

Since 2003 the Prosthetic Educational Program at the California State University in Dominguez Hills is located at Ossur's headquarters in North America. This has enabled the University to offer a new type of degree, where undergraduate students will first complete 3 years of college, and then go on to complete their final year in clinical training in prosthetics.



HUMAN RESOURCES

WORKING ENVIRONMENT

The employees of Ossur are an interestingly diverse group as far as their backgrounds and nationalities as well as the projects they are working on for the Company. Therefore the willingness to cooperate is an important factor for the success of the operation. Everyone must focus on creating a working environment where all employees see themselves as working for the same company.

When designing and developing products, emphasis is placed on cooperation between the R&D division and the M&O division as well as the sales divisions. All other departments also need to realize the importance of supporting the sales divisions in servicing Ossur customers in the best way possible.

Ossur's strategic objectives are very clear. The anticipated growth of the Company will increase the number of the Company's employees. This is a challenge when it comes to human resources. Ossur will continue to attract people who are ready to make an effort to ensure the success of the company, people who live by the same values as the Company's core values.

CORE VALUES

Ossur core values are honesty, frugality and courage. One of the fundamentals for successful cooperation is that all

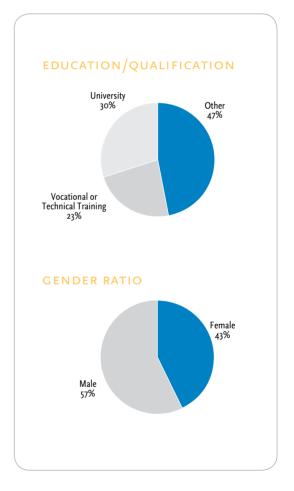
employees honour the core values in their relations with colleagues as well as customers. The core values should be reflected in the daily work of the employees to ensure sound business practices that maximize the probability of the Company's success.

HONESTY: WE SHOW EACH OTHER RESPECT, KEEP OUR PROMISES AND ADMIT TO OUR FAIL-URES.

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

COURAGE: WE ARE OPEN TO CHANGE, WE TAKE RISKS AND STRIVE FOR CONSTANT IMPROVE-MENTS.

The Ossur culture is characterized by initiative, ambition, drive and cooperation. In an environment of fast growth and development, mistakes can be expected. However, emphasis is on employees admitting their mistakes in order to learn from them. Ossur has managed to create



such an atmosphere within the Company, and it is the responsibility of the Company managers to encourage the employees to maintain this atmosphere.

WORKPLACE AUDIT

In 2006 an audit was conducted at Ossur where the employees responded to various questions regarding the workplace. The overall outcome was extremely good, as in previous workplace audits. The following statement: "Overall I am satisfied in my work at Ossur" received 4.33 points out of possible 5.0.

Furthermore, the employees of Ossur believe that the Company's image is very positive. It is very important that all the employees make an effort to maintain Ossur's strong image, and the management must ensure a motivating and pleasant working environment.

NUMBER OF EMPLOYEES

In seven years the number of employees has increased from 120 to over 1500. On average, the Company had over 1100 employees in 2006.



INFRASTRUCTURE

OUALITY SYSTEM

Ossur places great emphasis on quality and since 1993 has had a certified quality system in place. Being a manufacturer of medical device products, it is very important to be able to expand the scope of the quality system in line with the enactment of new laws and regulations, as well as the growth of the Company. The eventual objective is for all Ossur establishments to operate under one quality system. The majority of the operations is already operating in compliance with ISO 9001:2000 and ISO 13485:2003.

Ossur announced a voluntary worldwide recall in March 2006 of the Total Knee prosthetic product. The fault was discovered following a complaint, and immediately after it was realized that some of the knee units in use might be defective the product recall was announced, and an action plan was put in place. Altogether 3600 units were recalled. No patients have suffered any injuries or discomfort because of the faulty knees.

The traceability in the quality systems has made the process of reaching the users of the affected products much easier, which is essential as the well-being of the user is our first priority.

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

COMMUNITY RESPONSIBILITY

Ossur recognises its responsibility to conduct activities in a socially responsible manner to make our community better.

Ossur's core values, honesty, frugality and courage, make a strong foundation for the spirit within the Company. They are the guidelines for how we want to behave and build up a company with employees that are good representatives of those values. Through a combination of supports to the community, educational programs and the dedication to contribute to the general public, Ossur ensures that its efforts towards community responsibility have a positive impact.

Ossur outsources a large part of the production to Asia. The Company expects all of the business partners to operate on the same principles and seeks partners that share commitment to the promotion of best practices and continuous improvement.

All manufactures working with Ossur have subscribed to honouring and respecting the specific standard of conduct, set forth below:

• CHILD LABOUR

Does not employ any person under the minimum age established by local law or the age at which compulsory schooling has ended, whichever is greater, but in no case under the age of 14

• COMPENSATION

Certifies that it pays at least the minimum total compensation required by the local authorities, including all mandated wages, allowances and benefits

•• HOURS OF WORK

Provides one day off in seven and requires no more than 60 hours of work per week or complies with local limits if they are lower

•• HEALTH AND SAFETY

Certifies that it has written health and safety guidelines, including those applying to employee residential facilities, where applicable

Ossur is made up of passionate, ambitious people eager to help those who live with disabilities. Our corporate motto: Life Without Limitations, is much more than a marketing slogan. It is a vision that we share as a dedicated and caring organization.

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

TEAM OSSUR

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

WE PARTNER WITH A GREAT VARIETY OF BOTH LARGE AND SMALL ORGANIZATIONS AND CONTINUALLY SEARCH ADDITIONAL PARTNERSHIPS. THESE ARE A FEW OF OUR LARGER INITIATIVES:

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

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

In 2006 a number of Team Ossur members achieved their goals and received deserved attention at various events. One of Ossur's Team members, Oscar Pistorius, has set himself the ambitious goal of qualifying to compete in the 400m race at the Olympic Games with able-bodied athletes. If he reaches this goal, he will be the first amputee in the world to compete against able-bodied athletes at the Olympics.

THE ENVIRONMENT

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



CORPORATE GOVERNANCE

In line with the Company's core values of honesty, frugality and courage, Ossur is focused on benefitting from the advantages of good corporate governance practices. Such practices are determined by an on-going process, serving and aligning the interests of the Company, its shareholders and other stakeholders. The framework for the Company's corporate governance practices is laid out by the Icelandic Act respecting Public Limited Companies, the Company's Articles of Association, Rules of Procedure of the Board of Directors, Rules for Issuers of Securities listed on The OMX Nordic Exchange in Reykjavik and the Icelandic Guidelines on Corporate Governance.

SHAREHOLDERS MEETINGS

The supreme authority in all affairs of the Company is in the hands of lawful shareholders' meetings. A shareholders' meeting is valid, regardless of attendance, if the meeting has been legally convened. At shareholders' meetings each share carries one vote. Shareholders, shareholders' proxies, the Company's auditors and the CEO are entitled to attend shareholders' meetings. 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

The Board of Directors of the Company is the supreme authority in the affairs of the Company between shareholders' meetings. The Board is responsible for the organization of the Company and for ensuring the proper conduct of its operations at all times. The Board of Directors shall decide on all matters regarded as extraordinary or of major consequence. The same applies to major borrowings requiring mortgaging the Company's property. The Board shall establish goals for the Company in accordance with the Company's objectives and shall formulate the policy and strategy required to achieve these goals.

The Board is composed of five members, who are elected at the Annual General Meeting for a term of one year. A Board member shall only act according to his own conviction. A quorum is reached on the Board when a majority of Board members is present, provided that such meeting has been lawfully convened. Important decisions, however, may not be taken unless all members of the Board have

had an opportunity to discuss the matter, if possible. All matters brought before a Board meeting shall be decided by majority vote. In the event of a tie vote, the Chairman of the Board shall cast the deciding vote.

Board meetings shall normally be called on a monthly or bi-monthly basis. Members of the Board shall elect a chairman and vice-chairman from their own ranks. The signatures of a majority of the members of the Board are required to bind the Company. The Company signature is written by the Board, and only the Board may grant powers of procurement.

CEO

The Board shall appoint a chief executive officer (CEO) to manage the Company's daily operation. The CEO shall ensure that the accounts of the Company conform to the law and accepted practices, and that the disposal of the property of the Company is secure. The Board shall monitor whether the CEO prepares and carries out a business strategy consistent with the established targets. The Board may entrust the Chairman of the Board with negotiations with the CEO regarding his salary and other terms of employment.

AUDITORS AND ACCOUNTING

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

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

The elected chartered accountant of Ossur hf. is Deloitte hf., national ID 521098-2449, address: Storhofdi 23, 110 Reykjavik. Auditors on their behalf are Sigurdur Pall Hauksson, certified public accountant, born 1968, and Thorvardur Gunnarsson, certified public accountant, born 1954. Deloitte hf. has been Ossur's auditor since the Company's foundation in 1971. Mr. Gunnarsson has acted on its behalf since 2001 and Mr. Hauksson since September 2006.



INSIDER INFORMATION

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

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.

GUIDELINES ON CORPORATE GOVERNANCE

As a listed company on the OMX Nordic Exchange in Reykjavik, the Company is required to take into consideration the Guidelines on Corporate Governance for Icelandic limited-liability companies and explain any points of divergence and the ground for such ("comply or explain"). The Guidelines were compiled by the Icelandic Chamber of Commerce, OMX Nordic Exchange in Reykjavik and the Confederation of Icelandic Employers.

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

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

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

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

The Board has established its most important tasks through the Rules of Procedure of the Board. The rules also describe, among other, the allocation of responsibility within the board, representation of the Board, agenda and procedures of board meetings, obligation of confidentiality, instances of disqualifications and signature of the Company's statements. The rules are continuously reviewed and upgraded when necessary.

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

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

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

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

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

As of the date of this report, three members of the Board, Mr. Kristjan Ragnarsson, Mr. Sigurbjorn Thorkelsson and Mr. Ossur Kristinsson, are independent of major shareholders. According to the guidelines, a major shareholder is any party controlling at least 10% of the Company's total share capital, either singly or acting in concert with related parties. It should be noted that Mallard Holding S.A., owned by Mr. Ossur Kristinsson and his family, controls 9,75% of the Company's total share capital.

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

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

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

In light of the size of the board (five members), and the balanced and relevant expertise and experience of the current members of the Board, such committees have not been established. This decision is subject to continuous re-evaluation.

THE REMUNERATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The remuneration of the Board of Directors is decided at the Annual General Meeting. The remuneration of the CEO is decided by the Board of Directors. The Board of Directors shall approve the basic items on the Company's Remuneration Policy concerning wages and other payments to the supreme Officers of the Company and Directors. The Company's remuneration policy reveals whether and under which circumstances it is permissible to compensate officers and directors in the form of the delivery of shares, performance-linked payments, loan agreements, pension agreements and retirement agreements.

The remuneration policy shall be approved at the Company's Annual General Meeting with or without amendments. The remuneration policy is binding towards the Board of Directors to the extent it pertains to payments regarding share certificates, purchase and sale rights, priority purchase rights and other kinds of payments which are linked to share certificates in the Company or development of the price of shares in the Company.

No dividends, loans or commitments have been extended to these persons. The Company's Articles 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

Board of Directors	Position	Number of shares	Share option	Financially linked parties	Notes
Neils Jacobsen	Chairman of the Board	141,952,402	0	0	Holdings of William Demant
Þórður Magnússona	Vice Chairman of the Board	60,151,620	0	8,456	Holdings of Eyris Invest
Össur Kristinsson	Board member	37,526,907	0	0	Holdings of Mallard Holding
Kristján Tómas Ragnarsson	Board member	569,539	0	4,250	
Sigurbjörn Þorkelsson	Board member	528,184	0	0	
CEO and Executive Management					
Jón Sigurðsson	CEO	24,458,841	0	3,234	
Hilmar Janusson	VP of R&D	3,660,347	0	0	
Hjörleifur Pálsson	CFO	1,000,000	0	0	
Egill Jónsson	VP of Manufacturing and operations	18,499	0	4,250	
Árni Alvar Arason	President of Ossur Asia	2,124,450	0	0	
Eyþór Bender	President of Ossur Americas	2,027,900	0	0	
Ólafur Gylfason	Managing Director of Ossur Europe	476,368	0	0	

BOARD OF DIRECTORS AND CEO

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



JON SIGURDSSON, PRESIDENT & CEO (born 1956) has led the Company since 1996. He was the Commercial Counsellor for the Icelandic Trade Council in New York between 1992 and 1996 and previously Chief Financial Officer at Alafoss between 1989 and 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, USA.



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.



NIELS JACOBSEN, CHAIRMAN OF THE BOARD (born 1957) joined the Board of Directors of Ossur in 2005. He is President and CEO of William Demant Holding A/S and Oticon A/S, a Danish industrial group in the hearing health-care 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.



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.



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 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.



EXECUTIVE MANAGEMENT

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



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.



EGILL JONSSON (born 1957), Vice President of Manufacturing and Operations, has been with Ossur since 1996. He has led the Manufacturing division since that date. He was formerly a Project Manager at 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).



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



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



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





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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 the factors 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.

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 in

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.

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 counterclaims against the Company.

Marketing new products is essential for Ossur's future growth. The Company is therefore dependent on the development and/or acquisition of technologies and licenses 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.

LITIGATION AND OTHER ISSUES

Lawsuits are very common in the healthcare equipment sector. Filing and defending against intellectual property rights law suits is costly. In addition to being costly, lawsuits are time-consuming for Ossur's management and technical teams. Even though the Company is awarded damages for breach of its intellectual property rights, there is no guarantee that the Company will collect compensation. Intellectual property rights lawsuits can furthermore lead to loss of reputation, brand equity or revenue due to products that must be discontinued as a result of intellectual property lawsuits.

Ossur operates in competitive environments in which most competitors have a number of patents to protect their products. There is always a potential risk that Ossur could be drawn into litigation for patent infringement. Currently Ossur is involved in a legal procedure against Mölnlycke Health Care. Following the accusations of Mölnlycke Health Care that Ossur's Gentleheal® silicone-coated wound dressing infringed Mölnlycke's European patent, Ossur filed a suit in Sweden demanding a declaration of non-infringement from Mölnlycke. After the introduction of Gentleheal in US, Mölnlycke filed a complaint in US 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 5 December, 2006, Ossur hf., parent company of Ossur Holdings, Inc. 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 governments that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review is being conducted by third-party experts of the sales and the circumstances surrounding the sales to determine the scope of the potential violations. The likely outcome of this matter remains uncertain.

The manufacturers of healthcare equipment are responsible for the safety and effectiveness of their products. This risk can be mitigated by quality control and product testing. Ossur is insured against costs resulting from defective 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, this will negatively affect the profitability of the Company. Currently Ossur is developing numerous products for future introduction to the marketplace. If any of these products turn out to have 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 market. If Ossur's assumptions about the market for its products are incorrect, it may affect the company's future profitability. Assumptions regarding demographic trends are of high importance for Ossur. The users of Ossur's products are mostly elderly people and people with an 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. 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 diabetes, or any other reason, Ossur's profitability could be affected.

If the Company needs to discontinue any of its products, it will be adversely affected. Following acquisitions made in the past two years, the Company's product offering has diversified. If the Company needs to discontinue any of its products due to litigation, regulatory changes, substitute

products 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 orthopaedic bracing and support and prosthetics companies. The industry has also attracted large corporate groups with substantial financial strength. Increased competition through current players' excessive growth focus or new entrants might reduce pricing power and diminish sales for incumbent firms.

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

GOVERNMENT AND HEALTH CARE POLICIES

Changes in governmental regulations and health insurance policy can substantially affect Ossur's market prospects.

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 must comply with the Food and Drug Administration (FDA). In most of Ossur's other market areas, the regulations are similar to those of 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-marked for Europe. Changes in quality standards, authorization 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 subject to the approval of the authorities in each market area. Failure to obtain approval from the authorities and potential costs 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 orthopaedic industry. In recent years substantial effort has been put into cutting healthcare expenses. As healthcare costs are escalating in most countries, pricing pressure on manufacturers will most likely continue. 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 orthopaedic industry. Any event negatively affecting Ossur's reputation or in any other way impairing Ossur's brand equity could adversely impact the Company's performance.

DISTRIBUTION

Ossur relies on its relationship with orthopaedic professionals and other agents to sell their products. If Ossur fails to maintain these relationships, the Company could be adversely affected. Furthermore, some of Ossur's

products are 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 adversely affect the Company's sales. The company's largest customer accounts for 7% 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 manmade or natural catastrophes. If such things happened, the Company's production capabilities could be adversely affected, which could impair the fulfilment of customer orders. This could lead to a decline in sales and increased 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 would be sufficient to cover the full loss of the incident.

Ossur outsources around 25% of its production to Asia. Ossur intends to continue these outsourcing relationships, but most of the outsourcing is to China and Taiwan. There is a political and economic risk of outsourcing to these countries which could adversely affect the profitability of the Company.

A risk related to outsourcing is trade secret leakage. Working with an outsourcer requires teaching that company how to produce a 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. The risk is that the third party 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, Ossur 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. Losing a key supplier could disrupt the Company's operations as the ability to deliver products would be adversely affected, which could result in cancelled orders. Furthermore, the loss of a supplier could entail 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 existing 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 a loss of valuable knowledge and experience. To minimize the risk of losing the 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,

where often only a few companies compete for specialized employees. Companies in Iceland needing 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 a lack of qualified candidates. The educational level of Ossur's employees is high. In 2006 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 orthopaedic 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 orthopaedic companies because in many cases this would require them to relocate to Iceland.

GROWTH AND INTERNATIONAL FXPANSION

Ossur has grown by focusing on both internal and external growth. With respect to external growth, Ossur has acquired a number of companies within the orthopaedic field in recent years. The magnitude of major acquisitions like Royce Medical and Gibaud Group entails numerous risk factors for Ossur. These risk factors are primarily related to Ossur's ability to execute the integration and realize the benefits underlying the rationale of the acquisition. Integrating cultures is always challenging. Underestimating the importance and difficulty of cultural integration is a great risk in merging companies. Any factors leading to failed integration would have an adverse affect on Ossur's operations.

FINANCIAL 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.

The Company's policy is to hedge foreign exchange rate risk exposure only by passive use of currency borrowings, seeking to align the currency combination of liabilities to that of revenues. At the end of 2006, approximately 33% of total interest bearing liabilities are in US dollars and 67% in euros.

The Company's policy is to maintain a favourable distribution and a certain term on gross debt. Around 66% of the Company's long-term debt is in the form of bullet loans that will mature in 2011 and 2012. This considerably limits the Company's cash flow risk and liquidity risk. The loans are subject to financial covenants, the major ones being debt to EBITDA ratio and equity ratio. In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group in France. The bridge loan is included in the Company's current liabilities at the end of 2006. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio will temporarily be below its policy ratio. This temporary deviation has been approved by the Company's Board of Directors.

The Company's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate swap agreements. Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates into fixed rates of a weighted average of 5.99% (including margin) throughout the lifetime of the loans.

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 has made provision for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

TAX

Ossur could be affected by changes in tax legislation in the various countries influencing the Company's financial results. Currently a tax audit is beeing conducted on the Ossur subsidiary in the Netherlands. Investigation of the Company's tax filings, as for any other company, may be initiated at any time and affect the prospects of the Company.

UNLOADER® ONE



- •• OSSUR RECEIVES THE IR NORDIC AWARDS

 FOR BEST IR IN ICELAND
- OSSUR HOSTED ITS FIRST CAPITAL MARKET DAY AT THE COMPANY'S HEADQUARTERS

OSSUR STOCK

Ossur has been listed on the Iceland Stock Exchange, stock symbol HL:OSSR since 1999. Ossur is included in the ICEX-15 index, which consists of the 15 most traded companies listed on the Iceland Stock Exchange. The price of Ossur stock declined by 1% in 2006, from 114 at yearend 2005 to 113 at year-end 2006. The ICEX -15 index increased by 16%.

The total volume of trading in Ossur stock over the year amounted to USD 306 million, which corresponds to a turnover of 48%. The average spread of Ossur stock over the year was 1.01%. The lowest trading price during the year was 101.5 and the highest was 130.5

The turnover on the Iceland Stock Exchange (ICEX) in 2006 amounted to USD 64 billion, which is an increase of 77% from the preceding year. Equity turnover during the year amounted to USD 31 billion, which represents an increase of 82% from 2005. Average daily turnover in 2006 was USD 1.3 billion, compared with USD 690 million in 2005.

ICEX ACQUIRED BY OMX

In October the OMX Nordic Exchange acquired the Iceland Stock Exchange and took over the operations in December. Becoming a part of the OMX Nordic Exchange will increase visibility for Icelandic companies, and it is expected that the Icelandic companies will be included in the common Nordic list in April 2007. At the same time Icelandic share price data will be included in the OMX Nordic real-time information offering, and ICEX-listed instruments will be included in OMX indexes according to the same rules applying to instruments on other OMX exchanges.

Ossur will be a part of the healthcare index and fall into the category of Mid-Cap sized companies.

OSSUR STOCKS

STOCK SYMBOL	OSSR
BLOOMBERG	OSS.IR
REUTERS	OSSR.IC

SHAREHOLDERS

At year-end the number of shareholders was 2.964. The largest single shareholder was William Demant Invest A/S, holding 36.88%. The company is wholly-owned by Mr. 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 the chairman of the Board of Ossur.

The second largest shareholder was Eyrir Invest ehf. holding 15.37%. 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 Thordur Magnusson the chairman of the Board of Eyrir Invest. Mr. Thordur Magnusson is the vice chairman of the Board of Ossur.

TOTAL NUMBER OF SHARES

TOTAL NUMBER OF SHAREHOLDERS AT YEAR-END

MARKET CAP. AT YEAR —END

384,940,447 2,964 \$ 606 MILLION The third largest shareholder was Mallard Holding, owned by the founder of the company, Mr. Össur Kristinsson, and his family, with holdings of 9.75%. Mr. Össur Kristinsson is a member of the Ossur Board.

The Company holds 17,992 treasury shares.

DIVIDEND POLICY

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is held before the end of June each year. According to the Articles of Association of the Company, the meeting is convened under the same procedure as other shareholders meetings, with at least two weeks' notice. The results of the Annual General Meeting are sent to the Stock Exchange immediately following the meeting and are made available on the Company website in the course of the following business days. The 2008 Annual General Meeting will be held on 22 February.

INVESTOR RELATIONS

Ossur hf. places great emphasis on providing investors, analysts and other stakeholders with timely and accurate information concerning, the Company. Investor meetings, teleconferences and Internet presentations have been organized directly following press releases and financial reports over the year.

The cornerstone of the Company policy on investor relations is to secure equal access for all shareholders to all information. In order to secure equal access for Icelandic

and non-Icelandic investors, all information is published simultaneously in Icelandic and English. Through efficient reporting, the Company ensures that all necessary information concerning the progress of the Company is clear and contributes to the correct price formation of the Company's stock. Ossur uses the Hugin distribution system to disseminate press releases to the market and major press rooms.

Twice a year the CEO, CFO and IR manager travel on a road show to meet with analysts, investors and other stakeholders. Ossur's management has in the past participated in

LARGEST SHAREHOLDERS AT YEAR-END

		Number of shares	%
William Demant Invest A/S	Investment Fund	141,952,402	36.88
Eyrir Invest ehf	Investment Company	59,151,620	15.37
Mallard Holding S.A.	Founder & Family	37,526,769	9.75
Vik Investment Holding S.a.r.L.	President & CEO	24,446,907	6.35
Lífeyrissjóður verslunarmanna	Pension Fund	13,870,283	3.60
Straumur - Burðarás Fjárfesting	Investment Bank	9,160,733	2.38
Arion safnreikningur	Custody Bank	6,828,657	1.77
Kaupþing banki hf	Bank	5,938,472	1.54
FL GROUP hf	Investment Company	4,900,000	1.27
Lífeyrissjóðir Bankastræti 7	Pension Fund	4,343,719	1.13
Sparisjóður Hafnarfjarðar	Bank	4,003,784	1.04
Mycenaean Holding S.a.r.L.	VP of R&D	3,560,347	0.92
Sameinaði lífeyrissjóðurinn	Pension Fund	3,497,592	0.91
MP Fjárfestingarbanki hf	Investment Bank	3,199,845	0.83
Gildi -lífeyrissjóður	Pension Fund	2,747,910	0.71
	Top 15 shareholders	325,129,040	84.45
	Others (2.949)	59,811,407	15.55
	Total number of shares	384,940,447	100.00

conferences in its field, such as The Goldman Sachs European Medtech and Healthcare Services Conference and Merrill Lynch European Healthcare Conference in London and the UBS Global Life Science Conference and CIBC World Markets Annual Healthcare Conference in NY.

In June 2006, Ossur was awarded the Investor Relations Magazine Nordic award for best investor relations of an Icelandic company. This is the third time Ossur receives this honor, but the Company has been nominated five times.

In September Ossur hosted its first Capital Market Day at the Company's headquarters in Reykjavik. The purpose of the event was to introduce various aspects of the operations and future goals presented by the Company's management. The capital market day was well attended and well received by the participants. Ossur intends to continue hosting events like this to increase the awareness and understanding of Ossur's business and environment.

As of January 2, 2007 Ossur has been added as a component of the Dow Jones Wilshire Global IndexSM - an index family seeking to provide the broadest available measure of global equity markets. Ossur has been added to the following benchmark indexes:

- •• Dow Jones Wilshire Global Total market IndexSM
- Dow Jones Wilshire Iceland IndexSM
- •• Dow Jones Wilshire Medical Equipment IndexSM

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SHAREHOLDER INFORMATION ON THE

Ossur hf.'s website hosts extensive information on the Company. For example, stakeholders can read and subscribe to press releases sent to the Iceland Stock Exchange, monitor the price trends of their shares, use interactive analyst tools, read the Company's annual reports and listen to teleconferences with the Company management for 10 days following the conferences. The website also contains information about the Company's products and technology.

WWW.OSSUR.COM WWW.OSSUR.COM/INVESTORS

PUBLICATION SCHEDULE FOR

Reports

2 May 2007 1st Quarter
31 July 2007 2nd Quarter
30 October 2007 3rd Quarter
4 February 2008 4th Quarter

22 February 2008 Annual General Meeting

OSSUR HF. PRESS RELEASES IN 2006

- 18 January Ossur Acquires the US Company Innovation Sports
- 7 February Ossur Annual Results 2005
- 9 March Restructuring in North America
- 24 February Results of the Annual General Meeting
- 3 May 1st Quarter report 2006
- 31 July 2nd Quarter results 2006
- 30 October 3rd Quarter results 2006
- 22 December Össur acquires Gibaud Group in France

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PERFORMANCE OVERVIEW 2006

Transformation and record growth characterized the year 2006 at Ossur. The Company continued its expansion into the bracing and support market, completing three acquisitions, which are covered earlier in this report. Innovation Sports, Inc. is included in the consolidated accounts from 18 January 2006, Rigid Medical Technologies from 1 February 2006 and the Gibaud Group in France from 21 December 2006.

Comparison numbers for 2005 referred to in this section have been adjusted by excluding inventory step-up, one-time restructuring cost and unusual revenue in 2005, unless otherwise indicated. Prior to this adjustment, profitability growth rates are significantly higher and comparisons more favourable.

OPERATING INCOME

Sales amounted to USD 252.1 million, representing a record growth of 57% from 2005, measured in US dollars. The impact of foreign exchange rate changes on sales was positive by slightly under USD 1 million, and growth measured in local currency was 56%. Organic sales growth was 9% measured in US dollars, 8% measured in local currency.

Sales of prosthetic products accounted for USD 115.8 million, representing approximately 46% of total sales and a healthy growth of almost 12% from 2005, measured in US dollars. Sales of bracing and support products accounted for USD 135.0 million, representing 53% of total sales and an increase of 140% from the previous year.

Sales in North America amounted to USD 156.0 million in 2006, representing 62% of total sales, compared with 58% in 2005. Sales were up by 67% from the previous year, measured in US dollars. The strengthening of the Canadian dollar against the US dollar resulted in a slightly lower growth rate measured in local currency, or 66%. Organic growth was 13%, measured in US dollars. Prosthetics sales in North America continued to grow significantly above the market, or by 17% from 2005. Sales of bracing and support products increased by 130%, while pro forma growth was 6%.

Sales in Europe, including the Nordic countries, amounted to USD 80.1 million, accounting for 32% of total sales, compared with 35% in 2005. Sales growth in the European market was 44%, measured in US dollars. The strengthening of the euro, Swedish krona and the British pound against the US dollar resulted in a lower growth rate of 41%, measured in local currency. Organic growth was 4%, measured in US dollars but negative by 3% measured in local currency. Prosthetics sales growth was 6% in 2006, measured in US dollars. Sales of bracing and support products grew by 163%, while pro forma sales growth was 5%.

International sales account for 6% of total sales. Sales amounted to USD 16.0 million, increasing by 37% from 2005. The recent organizational changes at the Company, including the establishment of Ossur Asia, will lead to an increased emphasis on these markets and facilitate exploitation of the vast opportunities present in this segment.

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

GROSS PROFIT

Gross profit amounted to 59.2% of sales, compared with 60.8% in 2005, excluding inventory step-up relating to the acquisition of Royce Medical in 2005. The gross margin of IMP and Innovation Sports is considerably lower than at Ossur and Royce Medical. Significant restructuring of manufacturing and operations was undertaken during the year. This had a temporary negative effect on cost of goods sold but will result in increased efficiency in the future. The negative impact of these aspects is partially offset by positive exchange rate trends, mainly the weakening of the Icelandic krona against the US dollar.

OPERATING EXPENSES

Operating expenses before interest and taxes amounted to USD 232.9 million in 2006 or USD 212.6 million, excluding one-time restructuring expenses and amortization of intangible assets relating to acquisitions, corresponding to 84.3% of net sales, compared with 83.7% in 2005.

Amortization of intangible assets relating to the acquisition of Royce Medical, IMP and Innovation Sports had a significant impact on profit from operations and net profit in 2006, although it does not affect cash flow and EBITDA. The amortization amounted to USD 11.9 million in 2006, compared with USD 3.8 million in 2005. Amortization reduced the ratio of operating profit to sales in 2006 by 4.7 percentage points and net profit to sales by 2.9 percentage points. This amortization will continue for the next 4-5 years. Additionally, according to preliminary results of the purchase price accounting for the Gibaud Group, the acquired intangible assets will be amortized by approximately USD 1.2 million for the next 10 years.

The amortization in 2006 is allocated to individual operating items as follows:

2006 USD '000	2006 % of sales	2005 USD '000	2005 % of sales
6,780	-2.7%	2,312	-1.4%
4,091	-1.6%	1,260	-0.8%
1,018	-0.4%	222	-0.1%
11,889	-4.7%	3,794	-2.4%
7,245	-2.9%	2,290	-1.4%
	USD '000 6,780 4,091 1,018 11,889	USD 000 % of sales 6,780 -2.7% 4,091 -1.6% 1,018 -0.4% 11,889 -4.7%	USD 000 % of sales USD 000 6,780 -2.7% 2,312 4,091 -1.6% 1,260 1,018 -0.4% 222 11,889 -4.7% 3,794

Sales and marketing expenses, excluding amortization of intangible assets, were 24.1% of sales, up from 22.3% in 2005, primarily due to the different cost structure of Royce Medical, IMP and Innovation Sports. Investments in restructuring of the sales organization and sales channels are expected to produce a positive effect on sales and marketing expenses in the near future.

Research and development expenses, excluding amortization of intangible assets, amounted to 5.5% of sales, as compared with 6.9% in 2005. The strengthening of the US dollar against the Icelandic krona has a positive effect, as the majority of Ossur's research and development activities are conducted in Iceland. Additionally, research and development cost ratios at Royce Medical, IMP and Innovation Sports were considerably lower than at Ossur. All research and development costs continue to be expensed.

General and administrative expenses were 13.9% of sales, excluding amortization of intangible assets, down from 15.3% in 2005. Economics of scale and increased efficiency resulting from restructuring and integration activities are starting to be realized. Currency trends have also had a positive impact on this cost item.

One-time restructuring expenses relating to the acquisitions of Innovation Sports and the Gibaud Group amounted to USD 3 million and USD 5.5 million, respectively.

OPERATING RATIOS

Zoo6* Zoo5* Zoo4 Gross profit margin 59% 61% 60% Sales and marketing expenses 27% 24% 22% Research & development expenses 7% 8% 7% General & administrative expenses 14% 15% 16% Operation margin 11% 14% 16% Pretax margin 3% 12% 15% Net margin 4% 10% 12% EBITDA 19% 20% 20%				
Sales and marketing expenses 27% 24% 22% Research & development expenses 7% 8% 7% General & administrative expenses 14% 15% 16% Operation margin 11% 14% 16% Pretax margin 3% 12% 15% Net margin 4% 10% 12%		2006*	2005*	2004
Research & development expenses 7% 8% 7% General & administrative expenses 14% 15% 16% Operation margin 11% 14% 16% Pretax margin 3% 12% 15% Net margin 4% 10% 12%	Gross profit margin	59%	61%	60%
General & administrative expenses 14% 15% 16% Operation margin 11% 14% 16% Pretax margin 3% 12% 15% Net margin 4% 10% 12%	Sales and marketing expenses	27%	24%	22%
Operation margin 11% 14% 16% Pretax margin 3% 12% 15% Net margin 4% 10% 12%	Research & development expenses	7%	8%	7%
Pretax margin 3% 12% 15% Net margin 4% 10% 12%	General & administrative expenses	14%	15%	16%
Net margin 4% 10% 12%	Operation margin	11%	14%	16%
4,1	Pretax margin	3%	12%	15%
EBITDA 19% 20% 20%	Net margin	4%	10%	12%
	EBITDA	19%	20%	20%

^{*} Excluding one-time unusual income and expenses in 2005 and 2006.

FINANCIAL ITEMS

Net financial expenses amounted to just short of USD 20.6 million, including USD 15.1 million interest on bank loans and USD 5.6 million in exchange rate differences.

Interest on bank loans increased by 151%, which represents the significant increase in leverage undertaken since the acquisition of Royce Medical in August 2005. Ossur has entered into an interest rate swap agreement fixing the rates of USD 140 million and EUR 48.6 million of its long-term debt at a weighted average of 5.99% per annum interest rate throughout the term of the loan.

Approximately 67% of Ossur's long-term liabilities are in US dollars and 33% in euros. The significant increase in the Euro/US dollar spot rate from the beginning to the end of the year resulted in a negative exchange rate difference on long-term liabilities amounting to USD 6.9 million, which could be reversed by future market changes. Other exchange rate differences were positive by USD 1.4 million,

resulting in a net negative exchange rate difference of USD 5.6 million. This had a significant negative impact on the Company's net profit.

INCOME TAX

Significant deductions relating to a net loss in North America, as well as deductions relating to the internal financing structure of the Company, resulted in an overall positive consolidated income tax of USD 5.2 million.

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

PROFIT FOR THE YEAR

An overview of profit for 2006, showing the impact of onetime restructuring expenses and amortization of intangible assets relating to acquisitions is shown below:

Profit (USD '000)	2006	Excluding restructuring	Excl. restruct. & amortization
Operating profit	19,743	28,196	40,085
EBITDA	39,493	47,946	47,946
Net profit	4,360	9,709	16,953

The operating profit for the year was USD 40.1 million, excluding one-time restructuring costs and amortization of intangible assets relating to acquisitions, compared with USD 27.0 million in 2005. The operating profit margin was 15.9% in 2006, compared with 16.8% in 2005.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 47.9 million, excluding one-time restructuring costs and amortization of intangible assets relating to acquisitions, compared with USD 32.5 million in 2005. The ratio of EBITDA to sales was 19.0% in 2006, compared with 20.2% in 2005, excluding one-time revenue and expenses related to acquisitions.

Net profit amounted to USD 17.0 million, excluding one-time restructuring costs and amortization of intangible assets relating to acquisitions, compared with USD 17.9 million in 2005. The ratio of net profit to sales was 6.7% in 2006, compared with 11.1% in 2005. The significant increase in financial expenses due to increased leverage and unfavourable currency trends have a major impact on net profit.

RESULTS OF THE YEAR BY QUARTER

Profit and Loss Account 2006 USD '000	Qı*	Q2	Q ₃	Q4*	Total
Net sales	60,034	65,500	62,755	63,844	252,133
Cost of goods sold	(24,078)	(26,787)	(24,946)	(26,945)	(102,756)
Gross profit	35,956	38,713	37,809	36,899	149,377
Other income	54	69	121	286	530
Sales and marketing expenses	(16,009)	(17,323)	(17,530)	(16,758)	(67,620)
R&D expenses	(4,699)	(4,228)	(4,254)	(4,744)	(17,925)
General & administrative expenses	(8,542)	(8,753)	(9,085)	(9,785)	(36,165)
Profit from operations	6,760	8,478	7,061	5,897	28,196
Financial income/(expenses)	(4,921)	(5,987)	(3,887)	(5,807)	(20,602)
Profit before tax	1,839	2,491	3,174	90	7,594
Income tax	537	(372)	2,203	(253)	2,115
Net profit	2,376	2,119	5,377	(163)	9,709
EBITDA	11,594	13,144	12,138	11,070	47,946

^{*} Excluding one-time unusual income and expenses in quarters 1 and 4.



FARNINGS PER SHARE

Earnings per diluted share, excluding one-time restructuring cost, inventory step up and unusual revenues, amounted to 2.53 US cents in 2006, down from 4.69 US cents in the previous year, representing a 46% decrease.

Cash earnings per diluted share are measured as net profit plus depreciation and amortization per diluted share. Cash earnings per diluted share, excluding one-time restructuring cost, inventory step up and unusual revenues, amounted to 7.66 US cents in 2006, up from 7.49 US cents, representing a 2% increase.

The increase in the Company's leverage associated with financing of recent acquisitions and the related significant increase in interest expenses and exchange rate differences between 2005 and 2006 should be considered when assessing changes in earnings per share.

BALANCE SHEETS

Total assets increased from USD 408.0 million at the end of 2005 to USD 612.8 million at the end of 2006, or by 50%.

Innovation Sports was acquired in January 2006 for an acquisition price of USD 38.4 million, which was partially financed by existing cash and partially by an addition to the

Company's long-term loan agreement. The loan agreement was increased by USD 40 million in January 2006, of which USD 20 million were utilized to fund the acquisition.

The Gibaud Group in France was acquired in December 2006 for an acquisition price of USD 132 million. The acquisition was financed with a EUR 100 million bridge loan facility, which is included in the Company's current liabilities at the end of 2006, and cash.

The equity ratio at the end of 2006 was 26% compared with 37% at the end of 2005. The year-end equity ratio, excluding the acquisition of the Gibaud Group, was 36%. The current ratio was 0.6 at the end of 2006, compared with 2.1 at the end of the previous year.

An equity offering is planned for 2007 to repay the bridge loan. In the meantime, the Company's equity and current ratios will be below the minimum policy rates stated in the Company's Financial Risk Management Policy. This temporary deviation has been approved by the Board of Directors.

CASH FLOW

Working capital provided by operating activities amounted to USD 24.7 million, up by 30% between years. Cash gen-

erated by operations, before interest and taxes, amounted to USD 32.7 million, compared with USD 25.0 million in 2005, increasing by 31%. A net amount of USD 179.1 million was used for investing activities, including USD 169.4 million for acquisitions and USD 11.0 million for capital expenditure. Cash from financing activities amounted to USD 154.2 million, including the EUR 100 million bridge loan facility used to fund the acquisition of the Gibaud Group. Cash decreased by USD 8.9 million over the year.

CAPITAL EXPENDITURE AND INVEST-

MENTS

Capital expenditure amounted to USD 11.0 million in 2006, or 4.3% of sales. Significant investments in the Company's information technology platform and expansion of the Company's offices and warehouse in Eindhoven, the Netherlands, were undertaken during the year.

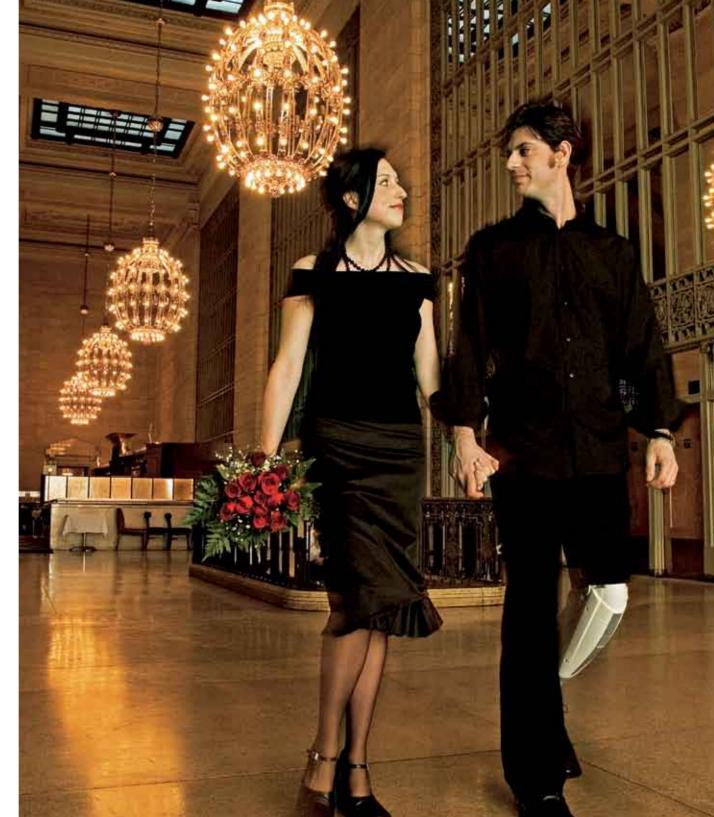
POST BALANCE SHEET EVENTS

In February 2007, Ossur acquired Somas in the Netherlands for USD 9.8 million. Somas is a leading distributor of bracing and support products in the Benelux area, with over 15% market share. The acquisition is expected to add approximately USD 5 million to sales in 2007, with an

EBITDA margin of around 20%. One-time restructuring expenses in the first quarter of 2007 will amount to approximately USD 650 thousand. Somas is an important addition to the platform for the Company's further expansion in Europe.

The acquisition was funded with a drawdown on the unutilized portion of the Company's main credit agreement.

The financial statements of Ossur have been prepared in accordance with the IFRS (International Financial Reporting Standards) since 2003. The introduction of the standards in the Company's accounting procedures has not called for any major changes in accounting policies or major reorganization of individual items, but the notes to the financial statements have been expanded substantially.





OSSUR HF. CONSOLIDATED FINANCIAL STATMENTS 2006





FINANCIAL RATIOS

CONSOLIDATED	STATEMENT		2006	2005	2004	2003	200
GROWTH	Net sales	USD '000	252,133	160,729	124,399	94,467	81,282
	EBITDA	USD '000	39,493	25,832	25,045	9,428	14,310
	Profit from operations	USD '000	19,743	16,525	20,374	6,112	11,50
	Employees	Number	1,190	680	568	480	43
	Net income	USD '000	4,360	11,688	15,227	4,661	10,05
	Total assets	USD '000	612,752	407,986	108,915	102,126	71,42
OPERATIONAL	Cash provided by operating activities	USD '000	15,988	15,481	16,600	10,383	10,50
PERFORMANCE	 as ratio to total debt 	%	5	10	30	23	3
	– as ratio to net profit		3.7	1.3	1.1	2.2	1.
	Working capital from operating activities	USD '000	24,663	18,954	23,095	8,774	14,66
	– as ratio to long-term debt and stockh. equi	ty %	6	8	27	13	3
LIQUIDITY	Quick ratio		0.4	1.4	1.4	1.2	1
AND SOLVENCY	Current ratio		0.6	2.1	2.2	1.8	2
	Equity ratio	%	26	37	50	43	:
ASSET UTILIZATION	Net sales per employee	USD '000	212	236	219	197	18
AND EFFICIENCY	Total asset turnover		0.5	0.6	1.2	1.1	1
	Grace period granted	Days	46	44	44	47	2
PROFITABILITY	Return on capital	%	5	10	20	9	2
	Return on common equity	%	3	15	31	11	2
	Operating profit as ratio to net sales	%	8	10	16	6	
	Net income before taxes as ratio to net sales	%	0	8	15	6	
	Net income for the period as ratio to net sale	es %	2	7	12	5	
MARKET	Value of stock	USD '000	605,572	695,125	395,514	201,237	219,58
	Price/earnings ratio (P/E)		138.9	59.5	26.0	43.2	21
	Price/book ratio		3.7	4.5	7.2	4.6	5
	Number of shares	Millions	385	385	318	328	32
	Earnings per share (EPS)	US Cent	1.13	3.53	4.80	1.45	3.
	Diluted Earning per Share (Diluted EPS)	US Cent	1.13	3.52	4.80	1.44	3.
	Cash EPS	US Cent	6.27	6.34	6.28	2.48	3.9
	Diluted Cash EPS	US Cent	6.27	6.33	6.27	2.47	3.9

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 2006. Ossur's Consolidated Financial statements are prepared in accordance with IFRS.

Ossur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics and bracing and support solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada, the Netherlands, the UK. Sweden, France, China and Australia. The Company sells its products worldwide, but the principal market areas are North America, Europe and Asia. In 2006, the 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, Ossur UK Holdings in the UK, Ossur Europe B.V., the Gibaud Group in France, Ossur in China and Ossur Asia-Pacific in Australia.

The total sales of the Ossur Consolidation amounted to USD 252.1 million, compared to USD 160.7 million in the preceding year. This represents an increase in sales of approximately 57%. Net profit amounted to USD 4.4 million, compared with USD 11.7 million in 2005. Net profit, excluding one time restructuring costs related to the acquisitions of Innovations Sports and the Gibaud Group, amounted to USD 9.7 million. Earnings per Share (EPS) amounted to US cents 1.13, compared with US cents 3.53 in 2005. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 39.5 million, compared with USD 25.8 million in the preceding year. EBIT-DA, excluding one time restructuring costs related to the acquisitions of Innovation Sports and the Gibaud Group, amounted to USD 47.9 million.

The total assets of the Ossur Consolidation amounted to USD 612.7 million at year-end; liabilities were 451.1 million, and equity was 161.6 million. The equity ratio at year-end was

26%, compared with 37% the preceding year. In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. An equity offering is planned in 2007 to repay the loan. As a result of this, the Company's equity ratio is temporarily below the minimum ratio according to the Company's Financial Risk Management Policy. This deviation has been approved by the Board of Directors.

In the course of the year the Company employed on average 1,190 employees, of which 250 were employed by the parent company in Iceland.

The share price of the Company was 113 at year-end, compared with 114 at the beginning of the year. The market value of the Company at year-end was USD 606 million and decreased 13% over the year. At year-end, shareholders in Ossur hf. numbered 2,956, compared with 3,156 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 36.9% and Eyrir Invest ehf. Holding 15,4%

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. There is a Compensation Committee 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 2007. 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 comfirm the Consolidated Financial Statements of Ossur for the year 2006 with their signatures.

Reykjavik, 7 February 2007

Board of Directors

Niels Jacobsen

Chairman of the Board

Ossur Kristinsson Kristjan T. Ragnarsson Thordur Magnusson Sigurbjorn Thorkelsson

President and CEO
Jon Sigurdsson

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and shareholders of Ossur hf.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Ossur hf. and subsidiaries, which comprise the balance sheet as of 31 December 2006, 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 FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Interna-

tional 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 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 financial

statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

OPINION

In our opinion, based on our own audit and the audit reports on the financial statements of the foreign subsidiaries of Ossur hf., the financial statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 7 February 2007

Deloitte hf.

Sigurdur Pall Hauksson

State Authorized Public Accountant

Thorvardur Gunnarsson

State Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2006 AND 2005

	NOTES	2006	2005	
NET SALES	4	252,133	160,729	
Cost of goods sold		(102,756)	(66,338)	
GROSS PROFIT		149,377	94,391	
Other income		530	1,870	
Sales and marketing expenses		(67,620)	(38,103)	
Research and development expenses		(17,925)	(12,408)	
General and administrative expenses		(36,165)	(24,806)	
Restructuring expenses	9	(8,453)	(4,419)	
PROFIT FROM OPERATIONS		19,743	16,525	
Financial income/(expenses)	10	(20,602)	(4,280)	
PROFIT (LOSS) BEFORE TAX		(859)	12,245	
Income tax	11	5,219	(557)	
NET PROFIT		4,360	11,688	
EARNINGS PER SHARE	12			
Basic Earnings per Share		1.13	3.53	
Diluted Earnings per Share		1.13	3.52	
Cash Earnings per Share		6.27	6.34	
Diluted Cash Earnings per Share		6.27	6.33	

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2006	31.12.2005
FIXED ASSETS			
Property, plant and equipment	13	37,074	22,130
Goodwill	14	316,593	232,134
Other intangible assets	15	69,959	46,694
Loans and receivables	17	1,526	780
Available for sale investments	18	682	593
Deferred tax asset	29	63,485	23,542
		489,319	325,873
CURRENT ASSETS			
Inventories	19	47,376	25,529
Accounts receivables	20	49,147	28,314
Other receivables	20	14,732	7,356
Bank balances and cash	20	12,178	20,914
		123,433	82,113
TOTAL ASSETS		612,752	407,986

31 DECEMBER 2006 AND 2005

EQUITY AND LIABILITIES

	NOTES	31.12.2006	31.12.2005	
STOCKHOLDERS' EQUITY			, ,	
Share capital	21	4,170	4,160	
Capital reserves	22	104,426	104,162	
Translation reserves	23	7,947	3,771	
Accumulated profits	24	45,096	40,736	
		161,639	152,829	
LONG-TERM LIABILITIES				
Loans from credit institutions	26	198,615	185,147	
Obligation under finance leases	27	87	32	
Other long-term liabilities	28	2,632	2,350	
Deferred tax liabilities	29	33,204	27,832	
		234,538	215,361	
CURRENT LIABILITIES				
Long-term liabilities - due within one year	30	15,331	11,048	
Accounts payable		22,132	8,844	
Bank loans	31	148,484	0	
Tax liabilities		2,301	917	
Other current liabilities		17,375	13,508	
Provisions	32	10,952	5,479	
		216,575	39,796	
TOTAL EQUITY AND LIABILITIES		612,752	407,986	

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2006 AND 2005

Profit from operations Depreciation and amortization Garn on disposal of assets Other calculated items Cash Generated By Operations Interest received Interest paid Taxes paid Taxes paid NET CASH PROVIDED BY OPERATING ACTIVITIES Purchase of fixed assets Acquisition of subsidiaries Acquisition of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of trading investments Proceeds from sale of trading investments CASH FLOWS FROM INNAINING ACTIVITIES Acquisition of subsidiaries Additions in loans and receivables Installments of loans and receivables Additions in loans and receivables Proceeds from sale of trading investments Borrowing of long-term liabilities Repayments of long-term liab	ERATING A	TIVITIES	NOTES	2006	2005
Depreciation and amortization (2) Gain on disposal of assets (2) Other calculated items Changes in operating assets and liabilities (6,777) CASH GENERATED BY OPERATIONS 32,686 Interest received (14,961) Interest paid (14,971) Taxes paid NET CASH PROVIDED BY OPERATING ACTIVITIES 15,988 CASH FLOWS FROM INVESTING ACTIVITIES 13,15 (10,95) Proceeds from sale of fixed assets 3,15 (10,95) Proceeds from sale of fixed assets 3,15 (10,95) Proceeds from sale of fixed assets 3,15 (10,95) Additions in loans and receivables 3,17 (10,95) Installments of loans and receivables 17 (14,97) Proceeds from sale of available for-sale investments 18 (179,05) CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans 15,3,077 Borrowing of long-term liabilities (14,97) Purchases of treasury stock 21,22 (7) Paid-in-share capital 21 (14,97) Purchases of freasury stock 21,22 (7) Paid-in-share capital 21 (14,97) Purchases of treasury stock 21,22 (7) Purchases				19.7/13	16,525
Gain on disposal of assets Other calculated items Changes in operating assets and liabilities Cash GENERATED BY OPERATIONS CASH GENERATED BY OPERATIONS Interest received Interest paid Interest paid Interest paid NET CASH PROVIDED BY OPERATING ACTIVITIES NET CASH PROVIDED BY OPERATING ACTIVITIES Purchase of fixed assets In standard assets In standa		ation	13, 15	19,750	9,307
CASH GENERATED BY OPERATIONS CASH GENERATED BY OPERATIONS CASH Interest received Interest paid (1491) Taxes paid (1491) Taxes paid (1988) NET CASH PROVIDED BY OPERATING ACTIVITIES NET CASH PROVIDED BY OPERATING ACTIVITIES Purchase of fixed assets 13, 15 (19,5) 25, 25, 25, 25, 25, 25, 25, 25, 25, 25,			3, 3	(28)	(372)
CASH GENERATED BY OPERATIONS Interest received Interest paid Taxes paid NET CASH PROVIDED BY OPERATING ACTIVITIES Itspass CASH FLOWS FROM INVESTING ACTIVITIES Purchase of fixed assets Proceeds from sale of fixed assets Acquisition of subsidiaries Additions in loans and receivables Installments of loans and receivables Proceeds from sale of rading investments Proceeds from sale of trading investments Proceeds from sale of trading investments Short-term loans Borrowing of long-term liabilities Short-term loans Borrowing of trageterm liabilities Short-term loans Short-term l	ed items			` o′	(1,000)
Interest received Interest paid	erating as	ets and liabilities		(6,779)	526
Interest paid Taxes paid NET CASH PROVIDED BY OPERATING ACTIVITIES 15,988 CASH FLOWS FROM INVESTING ACTIVITIES Purchase of fixed assets 13, 15 10,955 Proceeds from sale of fixed assets 33,35 10,69,411 Sale of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments 17 455 Proceeds from sale of available for-sale investments 18 Proceeds from sale of available for-sale investments 18 Proceeds from sale of trading investments 18 19,055 CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short-term loans Short-term loans Borrowing of long-term liabilities 153,072 Repayments of long-term liabilities 15,367 Purchases of treasury stock 21,22 988 Paid-in share capita 21 21 21 22 988 NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT ERGINNING OF YEAR 20,91 CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,666		CASH GENERATED BY OPERATIONS		32,686	24,986
NET CASH PROVIDED BY OPERATING ACTIVITIES CASH FLOWS FROM INVESTING ACTIVITIES Purchase of fixed assets 13, 15 (10,95) Proceeds from sale of fixed assets 333-5 (169,414 Sale of subsidiaries 333-5 (169,414 Sale of subsidiaries 17 (15) Proceeds from sale of available for-sale investments 18 (17) Proceeds from sale of available for-sale investments 18 (179,95) Proceeds from sale of available for-sale investments 18 (179,95) CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans 19,974 Borrowing of long-term liabilities 15,362 Repayments of long-term liabilities 114,974 Purchases of treasury stock 21,22 (7,11) Paid-in-share capital 21 (14,974 Paid-in-share capital 21 (14,974 Paid-in-share capital 21 (14,974 Paid-in-share capital 21,22 (98) NET CHANGE IN CASH AND CASH EQUIVALENTS 13 CASH AND CASH EQUIVALENTS 13 CASH AND CASH EQUIVALENTS 13 CASH AND CASH EQUIVALENTS AT END OF PERIOD 12,175 OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 4,366 Items not affecting cash 90 CAPITAL PROVIDED BY OPERATING ACTIVITIES 20,303	ed			208	486
NET CASH PROVIDED BY OPERATING ACTIVITIES CASH FLOWS FROM INVESTING ACTIVITIES Purchase of fixed assets Proceeds from sale of fixed assets Acquisition of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of trading investments Proceeds from sale of sale				(14,917)	(5,414)
CASH FLOWS FROM INVESTING ACTIVITIES Purchase of fixed assets Proceeds from sale of fixed assets Acquisition of subsidiaries Sale of subsidiaries Additions in loans and receivables Additions in loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of trading investments Short-term loans Short-term loans Short-term loans Short-term loans Borrowing of long-term liabilities 153,007 Borrowing of long-term liabilities 154,822 Repayments of long-term liabilities 154,822 Repayments of long-term liabilities 154,173 Purchases of treasury stock 21, 22 711 Paid-in share capital 21 Exercised share options 21, 22 988 NET CHANGE IN CASH AND CASH EQUIVALENTS FFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS AGSH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES VORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,666				(1,989)	(4,577)
Purchase of fixed assets Proceeds from sale of fixed assets Acquisition of subsidiaries Addition of subsidiaries Additions in loans and receivables Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of trading investments Proceeds from sale of trading investments Proceeds from sale of trading investments CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short		ET CASH PROVIDED BY OPERATING ACTIVITIES		15,988	15,481
Proceeds from sale of fixed assets Acquisition of subsidiaries Sale of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of available for-sale investments Proceeds from sale of available for-sale investments CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Sorrowing of long-term liabilities Short-term loans Sorrowing of long-term liabilities 11,82e Repayments of long-term liabilities 121, 22 71: Paid-in share capital 21, 22 98i NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 1 Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES	ESTING AC	IVITIES			
Proceeds from sale of fixed assets Acquisition of subsidiaries Sale of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of available for-sale investments Proceeds from sale of trading investments CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short-term loans Short-term loans Repayments of long-term liabilities Repayments of long-term liabilities Repayments of long-term liabilities 11,30-77 Purchases of treasury stock 21,22 (713 Paid-in share capital 21 Exercised share options 21, 22 988 NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANCE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 14,366 Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES	xed assets		13, 15	(10,953)	(7,990)
Acquisition of subsidiaries Sale of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Installments of loans and receivables Proceeds from sale of trading investments Installments of loans and receivables Proceeds from sale of trading investments CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short-term loan		ed assets	<i>J. J</i>	257	142
Sale of subsidiaries Additions in loans and receivables Installments of loans and receivables Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of trading investments I8 Proceeds from sale of trading investments I8 Proceeds from sale of trading investments I7 CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Borrowing of long-term liabilities I5,82e Repayments of long-term liabilities I15,82e Repayments of long-term liabilities I15,82e Repayments of long-term liabilities I15,82e Repayments of treasury stock I11,22 I12,22 I13,22 I14,97e Purchases of treasury stock I15,41,97e Purchases of treasury stock I15,41,97e NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANCE ADJUSTMENTS I15,41,97e NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANCE ADJUSTMENTS I15,41,97e OTHER INFORMATION: NET CASH PROVIDED BY OPERATING OF YEAR OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,666	subsidiari		33-35	(169,416)	(242,969)
Installments of loans and receivables Proceeds from sale of available for-sale investments Proceeds from sale of available for-sale investments Proceeds from sale of trading investments (179,05) CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short-term loans Sorrowing of long-term liabilities Repayments of long-term liabilities Repayments of long-term liabilities Repayments of long-term liabilities 21, 22 (71) Paid-in share capital 21 (4,97) Exercised share options 21, 22 (71) NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 4,366 (120,30) Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,666	iaries			0	854
Proceeds from sale of available for-sale investments Proceeds from sale of trading investments Proceeds from sale of trading investments (179,05) CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Short-term loans Short-term loans Short-term liabilities Short-term liabilities Repayments of long-term liabilities Repayments of long-term liabilities 11,22 Paid-in share capital Exercised share options 21,22 Paid-in share capital Exercised share options 21,22 986 EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 1,4366 ltems not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,665	oans and r	ceivables		(368)	(25)
Proceeds from sale of available for-sale investments Proceeds from sale of trading investments (179,05) CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Borrowing of long-term liabilities Repayments of porterm liabilities Repayments of treasury stock Purchases of treasury stock 21, 22 Paid-in share capital Exercised share options 21, 22 986 NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS 13 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66	of loans an	receivables	17	452	184
CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Sh	sale of av	ilable for-sale investments	18	0	145
CASH FLOWS FROM FINANCING ACTIVITIES Short-term loans Sh	sale of tra	ding investments		976	0
Short-term loans Borrowing of long-term liabilities Repayments of long-term ling-term ling-term ling-term ling-term ling-term ling-term ling-term ling-term ling-term ling-ter		TIMITIES		(179,052)	(249,659)
Borrowing of long-term liabilities Repayments of long-term liabilities Purchases of treasury stock Purchases of treasury stock Purchases of treasury stock Paid-in share capital Exercised share options Purchases of treasury stock Paid-in share capital Exercised share options Purchases of treasury stock Paid-in share capital Purchases of treasury stock Paid-in share capital Purchases of treasury stock Purchases of treasu		IIAIIIF2			
Repayments of long-term liabilities Purchases of treasury stock Purchases of treasury stock Paid-in share capital Exercised share options NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 21, 22 986 154,192 68,866 171 182 183 184 185 185 186 187 187 187 187 187 187 187		Labor			0
Purchases of treasury stock Paid-in share capital Exercised share options 21, 22 986 Exercised share options NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 21, 22 986 154,192 68,867 69,867 12, 178 13 14,366 15 16 17 17 18 19 19 19 19 19 19 19 19 19	ong-term	abilities			204,018
Paid-in share capital 21 20 986 Exercised share options 21, 22 986 NET CHANGE IN CASH AND CASH EQUIVALENTS (8,86) EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS 13 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 20,912 CASH AND CASH EQUIVALENTS AT END OF PERIOD 12,178 OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period 4,366 Items not affecting cash 20,303	f long-tern	liabilities		(14,978)	(40,381)
Exercised share options 21, 22 986 154,19 NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,669		CK	•	(712)	0
NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66				0	83,357
NET CHANGE IN CASH AND CASH EQUIVALENTS EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,669	e options		21, 22		3,929
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,669				154,197	250,923
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,669	AND CASH	QUIVALENTS		(8,867)	16,745
CASH AND CASH EQUIVALENTS AT END OF PERIOD OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66	XCHANGE .	DJUSTMENTS		131	(128)
OTHER INFORMATION: NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66	ALENTS AT	BEGINNING OF YEAR		20,914	4,297
NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66	ALENTS AT	END OF PERIOD		12,178	20,914
NET CASH PROVIDED BY OPERATING ACTIVITIES: Net profit for the period Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66					
Net profit for the period 4,366 Items not affecting cash 20,309 WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,669		G ACTIVITIES.			
Items not affecting cash WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 20,30 24,66		o nerrantes.		4 260	11,688
WORKING CAPITAL PROVIDED BY OPERATING ACTIVITIES 24,66					7,266
Was-		CAPITAL PROVIDED BY OPERATING ACTIVITIES			18,954
				(8,675)	(3,473)
·				15,988	15,481

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2006

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION RESERVES	ACCUMULATED PROFITS	TOTAL
Balance at 1 January 2005	3,042	17,747	4,636	29,295	54,720
Translation difference of shares in foreign companies			(865)		(865)
Net gains / losses not recognised in the income statement	0	0	(865)	0	(865)
Exercised share options	33	3,896			3,929
Paid-in share capital	1,085	82,272			83,357
Net profit for the year				11,688	11,688
Transferred to statutory reserves		247		(247)	0
Balance on 1 January 2006	4,160	104,162	3,771	40,736	152,829
Translation difference of shares in foreign companies			4,176		4,176
Net gains / losses not recognised in the income statement	0	0	4,176	0	4,176
Purchases of treasury stock	(5)	(707)			(712)
Exercised share options	15	971			986
Net profit for the period				4,360	4,360
Balance on 31 December 2006	4,170	104,426	7,947	45,096	161,639

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATIONS

Ossur hf. is a global supplier of orthopaedics devices. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs, braces, compression therapy products and various orthopaedic support products. The principal market areas of the Company are North America, Europe 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 production and assembly of the Company's products was conducted in eleven places during the period: at Ossur Americas, Inc., in Aliso Viejo, Foothill Ranch and in Camarillo in California, Thorofare and Moorestown in New Jersey, and in Albion, Michigan, at Ossur Canada, in Canada, Ossur UK in Manchester, Gibaud Group (La Tour Finance) in St. Etiene and Trevoux in France and at Ossur hf. in Iceland. Part of the production is outsourced to China and Taiwan.

According to organizational structure, the consolidation is divided into six divisions, i.e., Corporate Finance, responsible for overall financial management and overall marketing; Manufacturing & Operations, responsible for all production and inventory management; R&D, responsible for Quality Control, Product Development and New Product Management; Ossur Americas, responsible for sales in USA, Canada and Latin America; Ossur Europe, responsible for sales in Europe including Scandinavia and Ossur Asia responsible for Australia, Japan, China and other Asian countries.

Localized marketing, sales distribution and services are handled by Ossur Americas Inc., Ossur UK, Ossur Nordic, Ossur Europe, Gibaud in France (La Tour Finance), Ossur Asia and Ossur Asia Pacific.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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.

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.

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

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.

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 meeting the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or

disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

COODWILL

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.

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

The Company's policy is to hedge foreign exchange rate risk exposure only by passive use of currency borrowings, seeking to align the currency combination of liabilities to that of revenues. At the end of 2006, approximately 70% of total interest-bearing liabilities are in USD and 30% in EUR.

The Company's policy is to maintain a favourable distribution and a certain term on gross debt. Approximately 66% is in the form of bullet loans that will mature in 2011 and 2012. This limits considerably the Company's cash flow and liquidity risk. The loans are subject to financial covenants, the major ones being debt to EBITDA ratio and equity ratio. In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. The bridge loan is included in the Company's current liabilities at the end of 2006. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio will temporarily be below its policy ratio. This temporary deviation has been approved by the Company's Board of Directors.

The Company's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate swap agreements. Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates into fixed rates of a weighted average of 5.99% (including margin) throughout the lifetime of the loans.

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.

REVENUE RECOGNITION

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

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.

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

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.

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

The individual financial statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units ('CU'), 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 re-translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

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 Currency Units 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.

BORROWING COSTS

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

TAXATION

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

CURRENT TAX

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

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 are 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 by 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised as assets 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 qualifying for recognition as an asset are initially measured at cost.

The cost of property, plant and equipment comprises the 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.

INTANGIBLE ASSETS

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.

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

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.

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 are otherwise 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.

Recoverable amount is the higher of fair value less costs to sell 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 reflecting current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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 those 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 the changes in fair values are included in profit or loss for the period.

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 labour 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 receivable 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.

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.

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

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. QUARTERLY STATEMENTS

	Q1 2006	Q2 2006	Q3 2006	Q4 2006	TOTAL 2006
Net sales	60,034	65,500	62,755	63,844	252,133
Cost of goods sold	(24,078)	(26,787)	(24,946)	(26,945)	(102,756
GROSS PROFIT	35,956	38,713	37,809	36,899	149,377
OTHER INCOME	54	69	121	286	530
Sales and marketing expenses	(16,009)	(17,323)	(17,530)	(16,758)	(67,620
Research and development expenses	(4,699)	(4,228)	(4,254)	(4,744)	(17,925
General and administration expenses	(8,542)	(8,753)	(9,085)	(9,785)	(36,165
Restructuring expenses	(3,000)	0	0	(5,453)	(8,453
PROFIT FROM OPERATIONS	3,760	8,478	7,061	444	19,743
Financial income/(expenses)	(4,921)	(5,987)	(3,887)	(5,807)	(20,602
PROFIT (LOSS) BEFORE TAX	(1,161)	2,491	3,174	(5,363)	(859
Income tax	1,732	(372)	2,203	1,656	5,219
NET PROFIT (LOSS)	571	2,119	5,377	(3,707)	4,360
EBITDA	8,594	13,144	12,138	5,617	39,493

4. NET SALES

Net sales are specified according to market as follows:	2006	2005
North America	156,017	93,264
Europe, other	59,751	37,370
Nordic	20,395	18,421
International markets	15,970	11,674
	252,133	160,729
Net sales are specified according to currency as follows:	2006	2005
Canadian dollar, CAD	7,290	10,145
Swiss Franc, CHF	1,128	204
Euro, EUR	35,841	33,344
British Pound, GBP	21,857	2,601
Icelandic Krona, ISK	2,699	2,443
Australian dollar, AUD	2,650	772
Norwegian Krona, NOK	6,655	5,129
Swedish Krona, SEK	15,034	10,007
US Dollar, USD	158,979	96,084
	252,133	160,729

5. GEOGRAPHICAL SEGMENTS

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

2006	NORTH AMERICA	EUROPE, OTHER	NORDIC COUNTRIES	INTERNATIONAL MARKETS	ELIMINATIONS	CONSOLIDATED
REVENUE						
External sales	156,017	59,751	20,395	15,970	0	252,133
Inter-segment sales	16,148	6,565	65,546	0	(88,259)	0
Total revenue	172,165	66,316	85,941	15,970	(88,259)	252,133
Inter-segment sales are calculated	from external sales pric	res.				
RESULT						
Segment result	(1,205)	(1,208)	23,800	1,784	(3,428)	19,743
Financial income/(expenses)						(20,602
Profit (loss) before tax						(859
Income tax						5,219
Net profit						4,360
OTHER INFORMATION						
Capital additions	4,386	2,530	3,941	96	0	10,953
Depreciation and amortization	15,521	2,499	1,721	9	0	19,750
BALANCE SHEET						
	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006
ASSETS						
Segment assets	386,960	189,852	550,870	3,924	(518,854)	612,752
LIABILITIES						
Segment liabilities	308,242	150,204	395,885	3,197	(406,415)	451,113

5. GEOGRAPHICAL SEGMENTS (CONTINUED)

2005	NORTH AMERICA	EUROPE, OTHER	NORDIC COUNTRIES	INTERNATIONAL MARKETS	ELIMINATIONS	CONSOLIDATED
REVENUE						
External sales	93,264	37,370	18,421	11,674	0	160,729
Inter-segment sales	16,470	432	49,330	0	(66,232)	0
Total revenue	109,734	37,802	67,751	11,674	(66,232)	160,729
RESULT						
Segment result	8,861	277	7,984	(960)	363	16,525
Financial income/(expenses)						(4,280)
Profit before tax						12,245
Income tax						(557)
Net profit						11,688
OTHER INFORMATION						
Capital additions	3,711	361	3,901	17	0	7,990
Depreciation and amortization	6,778	639	1,888	2	0	9,307
BALANCE SHEET						
	31.12.2005	31.12.2005	31.12.2005	31.12.2005	31.12.2005	31.12.2005
ASSETS						
Segment assets	452,510	51,830	383,036	2,931	(482,321)	407,986
LIABILITIES						
Segment liabilities	308,048	39,035	229,184	1,857	(322,967)	255,157

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 according to product line as follows:

	2006	2005
Prosthetics	115,754	103,655
Orthotics	135,036	56,168
Other products	1,343	906
	252,133	160,729

7. SALARIES

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

	2006	2005
Salaries	57,799	43,726
Salary-related expenses	20,548	11,204
	78,347	54,930
Average number of positions	1,190	680

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

	2006	2005
Cost of goods sold	26,676	20,166
Sales and marketing	29,802	18,518
Research and development	7,678	6,011
General and administrative	14,191	10,235
	78,347	54,930

MANAGEMENT SALARIES AND BENEFITS

	SALARIES AND RELATED EXP.	EXERCISED SHARE OPTIONS	SHARES OWNED
BOARD OF DIRECTORS:			
Niels Jacobsen, Chairman of the Board	50	0	0
Thordur Magnusson, Vice Chairman	20	0	8,456
Ossur Kristinsson	98	0	37,526,907
Kristjan Tomas Ragnarsson	30	0	573,789
Sigurbjorn Thorkelsson	20	0	528,184
EXCECUTIVE COMMITTEE:			
Jon Sigurdsson, President and CEO	648	0	24,462,075
Hjorleifur Palsson CFO	272	1,000,000	1,000,000
Egill Jonsson, VP of Manufacturing & Operation	ons 272	0	22,749
Arni Alvar Arason, VP of Sales and Marketing	272	0	2,124,450
Hilmar Bragi Janusson, VP of R&D	272	100,000	3,660,347
Eythor Bender, Presid. of Ossur North America	a 397	75,000	2,027,900
Olafur Gylfason, Man. Director of Ossur Europ	pe 261	0	476,368

In addition to salaries and related expenses, the CFO realised 1,000,000 shares through the exercise of stock options. The CFO purchased the shares at the exercise price of ISK 46; the market value of these shares was ISK 124.5 at the same time.

The VP of R&D realised 100,000 shares through the exercise of stock options. The purchase price was 73.7, and the market value of these shares was ISK 112 at the exercise date.

The Presid. of Ossur North America realised 75,000 shares through the exercise of stock options. The purchase price was ISK 58.5, and the market value of these shares was ISK 108.5 at the exercise date.

There were no outstanding share options at year end.

8. FEES TO AUDITORS

	2006	2005
Audit of financial statements	436	322
Review of interim financial statements	289	118
Other services	620	893
	1,345	1,333

9. RESTRUCTURING COSTS

In connection with the acquisition of the US-based Innovation Sports Inc., and the Gibaud Group in France (La Tour Finance), USD 8.5 million in restructuring and integration costs have been expensed one time in the income statement. The costs cover areas, such as restructuring of management, manufacturing, restructuring and consolidation of finance and back office functions and severance payments.

10. FINANCIAL INCOME / (EXPENSES)

INCOME FROM INVESTMENTS:	2006	2005
Bank deposit	97	449
Dividends from trading investments	7	0
Other loans and receivables	16	1
Available for sale investments	34	90
Other interest income	89	28
	243	568
FINANCE COSTS:		
Interest on bank loans	(15,084)	(6,008)
Interest on obligations under finance leases	(12)	(24)
Other interest expenses	(170)	(208)
	(15,266)	(6,240)
Exchange rate differences	(5,579)	1,392
	(20,602)	(4,280)

11. INCOME TAX EXPENSE

Income tax expenses are specified as follows:

	2006	2005
Current tax expenses	(639)	(2,358)
Deferred tax expenses	6,220	1,315
Exchange rate difference	(362)	486
	5,219	(557)

Reconciliation of effective tax rate:		2006				2005		
	AM	OUNT		%	Al	MOUNT	%	
Profit from operations	(859)				12,245		
Income tax expense calculated at 18%		155		18%	(2,204)	(18%)	
Effect of different tax rates of other jurisdictions		6,590		767%		1,062	9%	
Deductible expenses accounted in equity	(582)	(68%)		0	0%	
Effect of non-taxable income		0		0%		180	1%	
Tax effect of expenses that are not deductible		2		0%	(139)	(1%)	
Effect of change in tax rate	(56)	(7%)		471	4%	
Other changes	(890)	(104%)		73	1%	
		5,219	(508%	(557)	(5%)	

12. EARNINGS PER SHARE

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

	2006	2005
Net profit	4,360	11,688
Total average number of shares outstanding		
during the period (in thousands)	384,262	331,365
Total average number of shares, including potential		
shares (in thousands)	384,296	331,933
Basic Earnings per Share (US cents)	1.13	3.53
Diluted Earnings per Share (US cents)	1.13	3.52
Cash Earnings per Share	6.27	6.34
Diluted Cash Earnings per Share	6.27	6.33
	Q4 2006	Q4 2005
Net profit (loss) for Q4	(3,707)	3,088
Total average number of shares outstanding		
during Q4 (in thousands)	384,923	381,246
Total average number of shares, including potential		
shares (in thousands)	384,959	381,920
Basic Earnings per Share (US cents)	(0.96)	0.81
Diluted Earnings per Share (US cents)	(0.96)	0.81
Cash Earnings per Share	0.38	1.86
Diluted Cash Earnings per Share	0.38	1.85

13. PROPERTY, PLANT AND EQUIPMENT

COST	BUILDINGS AND SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	ТОТА
COST			00	0.666
At 1 January 2006	3,161	21,625	13,882	38,668
Additions	0	1,548	8,880	10,428
Acquired on acquisition of subsidiary	12,403	8,139	1,999	22,54
Exchange differences	121	588	436	1,14
Eliminated on disposal	0	(275)	(867)	(1,142
Fully depreciated assets	0	(832)	(549)	(1,38
At 31 December 2006	15,685	30,793	23,781	70,25
ACCUMULATED DEPRECIATION				
At 1 January 2006	610	9,769	6,159	16,53
Charge for the year	109	3,059	3,395	6,56
Acquired on acquisition of subsidiary	6,213	4,459	907	11,57
Exchange differences	135	301	225	66
Eliminated on disposal	0	(155)	(758)	(9
Fully depreciated assets	0	(694)	(549)	(1,22
At 31 December 2006	7,067	16,739	9,379	33,18
CARRYING AMOUNT				
At 31 December 2006	8,618	14,054	14,402	37,07
At 31 December 2005	2,551	11,856	7,723	22,13

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2006	2005
Cost of goods sold	2,982	2,315
Sales and marketing expenses	333	209
Research and development expenses	271	141
General and administrative expenses	2,977	1,653
	6,563	4,318

The following rates are used for depreciation:

Buildings and sites	2 to 5%
Fixtures and office equipment	10 to 34%
Machinery and equipment	12 to 20%

14. GOODWILL

COST	2006
At 1 January 2006	232,134
Reclassification of Goodwill in Royce to deferred tax assets	(35,862)
Arising on acquisition of subsidiaries	116,977
Exchange differences	3,344
At 31 December 2006	316,593
CARRYING AMOUNT	
At 31 December 2006	316,593
At 31 December 2005	232,134

The Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates, using pre-tax rates reflecting current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Company prepares cash flow forecasts, based on actual operating results and derived from the most recent financial budgets approved by management for the next five years. Cash flows for future periods are extrapolated using a 2-4 per cent growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. A pre-tax discount rate of 9-11 per cent has been used in discounting the projected cash flows.

15. OTHER INTANGIBLE ASSETS

	PATENT	TRADEMARK	OTHER	TOTAL
COST				
At 1 January 2006	13,052	10,518	30,452	54,022
Additions	193	14	318	525
Arising on acquisition of a subsidiary	2,390	15,102	18,567	36,060
Exchange differences	62	348	118	528
Eliminated on disposal of a subsidiary	(19)	0	0	(19)
At 31 December 2006	15,678	25,982	49,455	91,116
AMORTIZATION				
At 1 January 2006	2,460	552	4,316	7,328
Charge for the period	2,394	1,213	9,580	13,187
Acquired on acquisition of subsidiary	611	0	0	611
Eliminated on disposal of a subsidiary	(19)	0	0	(19)
Exchange differences	(3)	36	17	50
At 31 December 2006	5,443	1,801	13,913	21,157
CARRYING AMOUNT				
At 31 December 2006	10,235	24,181	35,542	69,959
At 31 December 2005	10,592	9,966	26,136	46,694

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

	2006	2005
Cost of goods sold	246	164
Sales and marketing expenses	7,172	2,706
Research and development expenses	4,321	1,500
General and administrative expenses	1,448	619
	13,187	4,989

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

Patent	2 to 5%
Trademark	10 to 34%
Other	10 to 32%

16. 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
GBM Medical AB	Sweden	100%	No operation
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
Royce Medical Holdings, Inc	USA	100%	Holding
Royce Medical Company	USA	100%	Manufacturer, sales, distribution and services
Rigid Med. Techn., Inc	USA	100%	Services
Vistek, Inc	USA	100%	No operation
Philad. Cervical Collar Co	USA	100%	Manufacturer, sales, distribution and services
The Jerome Group Inc	USA	100%	Manufacturer, sales, distribution and services
GHT, Inc	USA	100%	No operation
Empower Business Sol.,Inc	USA	100%	Healthcare consulting
Innovation Sports, Inc	USA	100%	Manufacturer, sales, distribution and services
Ortho Vantage, Inc	USA	100%	Services
Generation II Orthotics, Inc	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA	Belgium	100%	No operation
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
Medistox, Ltd	UK	100%	Sales, distribution and services
Ossur Holding France (SAS)	France	100%	Holding
La Tour Finance (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%	No operation

16. THE CONSOLIDATION (CONTINUED)

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

On 18 January 2006, Ossur's subsidiary Ossur Holdings, Inc. acquired 100 per cent of the issued share capital of the US-based Innovation Sports, Inc., a company specializing in development and manufacturing of ligament braces.

On 1 February 2006, Ossur's subsidiary Royce Medical Holdings, Inc. acquired 100 per cent of the issued share capital of the US-based Rigid Medical Technology, Inc., a company specialising in providing stock-and-bill reimbursement services.

In the third quarter the Company founded a new company in China, Ossur Prosthetics and Rehabilitation Co., Ltd. The company specializes in manufacturing, sales, distribution and services.

On 21 December 2006 Ossur acquired the French company Gibaud Group (La Tour Finance). The company specializes in the development, manufacturing and sales of braces and support products and compression therapy products.

17. LOANS AND RECEIVABLES

	LOANS AND RECEIVABLES
Balance at 1 January 2005	824
Additions during the period	174
Installments during the period	(184)
Exchange differences	(34)
At 1 January 2006	780
Additions during the period	368
Acquired on acquisition of subsidiary	820
Installments during the period	(452)
Exchange differences	10
At 31 December 2006	1,526

The investments included above represent investments in bonds and other long-term receivables which present the Consolidation with an 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 2005	411
Acquired on acquisition of subsidiary	306
Disposed of during the period	(145)
Fair value and exchange rate adjustments	21
At 1 January 2006	593
Fair value and exchange rate adjustments	89
At 31 December 2006	682

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

19. INVENTORIES

	31.12.2006	31.12.2005
Raw material	17,600	10,063
Work in progress	2,409	1,892
Finished goods	27,367	13,574
	47,376	25,529

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 12,764 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,659 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

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

20. ACCOUNTS AND OTHER RECEIVABLES

ACCOUNTS RECEIVABLE:	31.12.2006	31.12.2005
Nominal value	51,024	29,978
Allowances for doubtful accounts	(1,162)	(963)
Allowances for sales returns	(715)	(701)
	49,147	28,314

The average credit period taken on sale of goods is 46 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:	31.12.2006	31.12.2005
VAT refundable	1,501	2,556
Prepaid expenses	5,594	4,031
Other	7,637	769
	14,732	7,356

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. SHARE CAPITAL

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

	SHARES	RATIO	NOMINAL VALUE
Total share capital at period-end	384.9	100.0%	4,170
	384.9	100.0%	4,170

Shares issued and outstanding at period-end totalled of 384,940,447. 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 2005	3,042
Exercised share options	33
Paid-in share capital	1,085
Share capital on of 1 January 2006	4,160
Purchases of treasury stock	(5)
Exercised share options	15
Balance at 31 December 2006	4,170

22. CAPITAL RESERVES

	SHARE PREMIUM	STATUTORY RESERVES	TOTAL
Balance at 1 January 2005	16,951	1,043	17,994
Exercised share options	3,896	0	3,896
Paid-in share capital	82,272	0	82,272
Balance at 1 January 2006	103,119	1,043	104,162
Purchases of treasury stock	(707)	0	(707)
Exercised share options	971	0	971
Balance at 31 December 2006	103,383	1,043	104,426

23. TRANSLATION RESERVES

	TRANSLATION RESERVES
Balance at 1 January 2005	4,636
Exchange differences arising on translation of subsidiaries	(865)
Balance at 1 January 2006	3,771
Exchange differences arising on translation of subsidiaries	4,176
Balance at 31 December 2006	7,947

24. ACCUMULATED PROFITS

	ACCUMULATED PROFITS
Balance at 1 January 2005	29,295
Transferred to statutory reserves	(247)
Net profit for the period	11,688
Balance at 1 January 2006	40,736
Net profit for the period	4,360
Balance at 31 December 2006	45,096

25. STOCK OPTION CONTRACTS AND OBLIGATIONS TO INCREASE SHARE CAPITAL

All options are forfeited if the employee leaves the company before the options vest.

	01.01.2006 - 31.12.2006		01.01.2005 - 31.12.2005	
	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	1,340	50.31	4,803	66.05
Exercised during the period	(1,340)	51.63	(3,463)	72.15
Outstanding at the end of the period	0	0.00	1,340	50.31
Exercisable at the end of the period	0	0.00	340	62.97

At 31 December 2006, the total outstanding number of shares in Ossur hf. amounted to 384,940,447.

26. LOANS FROM CREDIT INSTITUTIONS

	REMAINING BALANCE	
	31.12.2006	31.12.2005
Loans in USD	144,002	136,989
Loans in EUR	69,702	57,548
	213,704	194,537
Current maturities	(15,089)	(9,390)
Loans from credit institutions	198,615	185,147
Aggregated annual maturities are as follows:		
In 2007 / 2006	15,089	9,390
In 2008 / 2007	15,149	14,256
In 2009 / 2008	20,326	14,295
In 2010 / 2009	20,378	19,282
ln 2011 / 2010	71,269	19,344
Later	71,493	117,970
	213,704	194,537

The average interest rates were as follows:

	2006	2005
Bank loans	5.99%	5.99%

In connection with the acquisition of Innovation Sports, Inc., the Company's USD 200 million Term loan agreement was increased by USD 40 million, maturing in 2011 and 2012. USD 20 million are undrawn and available. 70% of total term loan drawdowns have been made in USD and 30% in EUR.

Debt issuance cost has been capitalized and is amortized over the term of the loan.

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

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 until 2012.

During the period a total gain of USD 158 thousand was recorded in the Income Statement due to the swap agreements.

27. OBLIGATION UNDER FINANCE LEASES

	MINIMUM LEAS 31.12.2006	E PAYMENTS 31.12.2005	REMAININ 31.12.2006	G BALANCES 31.12.2005
Finance leases in USD	120	37	117	37
Finance leases in EUR	30	190	30	184
	150	227	147	221
Current maturities	(59)	(193)	(60)	(189)
Obligation under finance leases	91	34	87	32

Aggregated annual maturities are as follows:

	MINIMUM LEASE PAYMENTS		REMAINING BALANCES		S REMAINING BALANCES		
	31.12.2006	31.12.2005	31.12.2006	31.12.2005			
In 2007 / 2006	59	193	60	189			
In 2008 / 2007	27	34	25	32			
In 2009 / 2008	31	0	28	0			
In 2010 / 2009	31	0	30	0			
ln 2011 / 2010	4	0	4	0			
	152	227	147	221			
Less: future finance charges	(5)	(6)					
Remaining balances	147	221					

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.

28. OTHER LONG-TERM LIABILITIES

	REMAINING BALANCES	
	31.12.2006	31.12.2005
Other liabilities in USD	430	639
Other liabilities in EUR	0	118
Other liabilities in SEK	545	944
Other liabilities in GBP	1,747	2,060
Other liabilities in AUD	92	58
	2,814	3,819
Current maturities	(182)	(1,469)
Other long-term liabilities	2,632	2,350
Aggregated annual maturities are as follows:		
In 2007 / 2006	182	1,469
In 2008 / 2007	1,187	1,201
In 2009 / 2008	289	749
In 2010 / 2009	162	104
Later	994	296
	2,814	3,819

29. DEFERRED TAX

	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	TOTAL
At 1 January 2006	23,542	(27,832)	(4,290)
Arising on acquisition of a subsidiary	215	(7,288)	(7,073)
Reclassification of goodwill in Royce	35,862	0	35,862
Calculated tax for the period	3,681	1,538	5,219
Income tax payable for the period	0	603	603
Exchange differences	185	(225)	(40)
At 31 December 2006	63,485	(33,204)	30,281

30. LONG-TERM LIABILITIES – DUE WITHIN ONE YEAR

	31.12.2006	31.12.2005
Loans from credit institutions	15,089	9,390
Obligations under finance leases	60	189
Other long-term liabilities	182	1,469
	15,331	11,048

31. BRIDGE LOAN - GIBAUD GROUP (LA TOUR FINANCE)

In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. The bridge loan is included in the Company's current liabilities at the end of 2006. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio will temporarily be below its policy ratio. This temporary deviation has been approved by the Company's Board of Directors.

32. PROVISIONS

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	TOTAL
At 1 January 2006	1,396	4,083	5,479
Acquired on acquisition of subsidiary	0	1,044	1,044
Additional provision in the period	1,729	8,714	10,443
Exchange differences	0	17	17
Utilization of provision	(380)	(5,651)	(6,031)
At 31 December 2006	2,745	8,207	10,952

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.

33. ACQUISITION OF INNOVATION SPORTS INC.

On 18 January 2006 Ossurs' subsidiary Ossur North America, Inc. acquired 100 per cent of the issued share capital of Innovation Sports, Inc. for a cash consideration of USD 39,2 million. This transaction has been accounted for by the purchase method of accounting.

NET ASSETS ACQUIRED:	ACQUISITION 18.01.2006
Operating fixed assets	882
Intangible assets	8,500
Available-for-sale investments	334
Inventories	1,094
Other current assets	3,597
Bank balances and cash	203
Long-term liabilities	(400)
Current liabilities	(1,409)
	12,801
Goodwill	26,352
Total consideration	39,153
Satisfied by cash	39,153
	39,153
NET CASH OUTFLOW ARISING ON ACQUISITION:	
Cash consideration	39,153
Bank balances and cash acquired	(203)
	38,950

Fair value of intangible assets were valued with the assistance of Strategic Equity Group, a valuation advisory service company. Intangible assets recognised in the acquisition include patents, trademarks, customer relationship and non-compete agreements.

According to the share purchase agreement, the cash consideration included a working capital adjustment which was subject to change after the seller's review of the opening balance of the companies.

Innovation Sports contributed USD 18,184 thousand of revenue for the period between the date of acquisition and the balance sheet date.

34. ACQUISITION OF RIGID MEDICAL TECHNOLOGIES, INC.

On 1 February 2006 Ossur's subsidiary Royce Medical Holdings, Inc. acquired 100 per cent of the issued share capital of Rigid Medical Technologies, Inc. in USA for a cash consideration of USD 788 thousand. This transaction has been accounted for by the purchase method of accounting.

NET ASSETS ACQUIRED:	ACQUISITION 01.02.2006		
Operating fixed assets	18		
Intangible assets		1	
Inventories		39	
Current assets		123	
Current liabilities	(73)	
		108	
Goodwill		680	
Total consideration		788	
Satisfied by cash		788	
		788	
NET CASH OUTFLOW ARISING ON ACQUISITION:			
Cash consideration		788	
Payable later	(100)	
		688	

Rigid Medical Technologies, Inc. contributed USD 669 thousand of revenue for the period between the date of acquisition and the balance sheet date.

35. ACQUISITION OF GIBAUD GROUP (LA TOUR FINANCE)

On 21 December 2006 Ossur's subsidiary Ossur Europe, BV acquired 100 per cent of the issued share capital of Gibaud Group (La Tour Finance), including Gibaud Pharma EURL, Gibaud SAS, Darby Finances SAS, Tournier Bottu International SAS, Gibaud Espania SA and Gibaud Suisse SA, for a cash consideration of USD 136.5 million. This transaction has been accounted for by the purchase method of accounting.

NET ASSETS ACQUIRED:	ACQUISITION 21.12.2006
Operating fixed assets	10,062
Patents	335
Trademarks	15,088
Customer relationship	11,769
Other non-current assets	485
Inventories	11,850
Bank balances and cash	6,735
Long-term liabilities	(2,292)
Deferred tax liability	(7,073)
Current liabilities	(372)
	46,587
Goodwill	89,945
Total consideration	136,532
Satisfied by cash	(136,532)
	(136,532)
NET CASH OUTFLOW ARISING ON ACQUISITION:	
Cash consideration	136,532
Bank balances and cash acquired	(6,755)
	129,777

The figures above are based on a preliminary opening balance sheet prepared for purchase accounting purposes and are therefore subject to change during Q1 2007.

Intangible assets recognised in the acquisition include patents, trademarks, customer relationship, non-compete agreements and other assets. In accordance with IFRS, inventories at acquisition date are valued at fair value.

According to the share purchase agreement, the cash consideration included a working capital adjustment which was subject to change after the seller's review of the opening balance of the companies.

Gibaud Group (La Tour Finance) contributed USD 993 thousand of revenue and generated a loss of USD 3,549 thousand for the period between the date of acquisition and the balance sheet date. This includes the expensing of the restructuring cost amount of USD 5,453 thousand, which has a negative effect net of tax amounting to USD 3,544 thousand in the consolidated income statement.

36. OPERATING LEASE ARRANGEMENTS

	2006	2005
Minimum lease payments under operating		
leases recognised in the Income Statement for the year	5,739	4,505

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

	31.12.2006	31.12.2005
In 2007 / 2006	5,104	4,760
In 2008 / 2007	4,964	4,098
In 2009 / 2008	3,509	2,939
In 2010 / 2009	3,099	2,203
ln 2011 / 2010	2,715	1,826
Later	7,256	6,644
	26,647	22,470

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Thirty two rental agreements are in place for premises in Reykjavik, the Netherlands, Germany, Canada, Australia, Sweden, United Kingdom and the United States. The leases expire in the years 2007-2020.

37. INSURANCE

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

	INSURANCE VALUE	BOOK VALUE
Fixed assets and inventories	97,824	84,450

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 USD 42,170 thousand.

38. LITIGATION

On 5 December, 2006, Ossur hf., parent company of Ossur Holdings, Inc. 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 governments that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review is being conducted by third-party experts of the sales and the circumstances surrounding the sales to determine the scope of the potential violations. 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 trade show 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.

Both cases are in progress.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 7 February 2007.

LOCATIONS





FORWARD-LOOKING STATEMENTS

This annual report contains projections and other forward-looking statements regarding future events and/or the future financial performance of Ossur hf. You can identify forward-looking statements by term, such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" or the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, rapid technological and market change in our industries, as well as many other risks specifically related to Ossur hf. and its operations.

