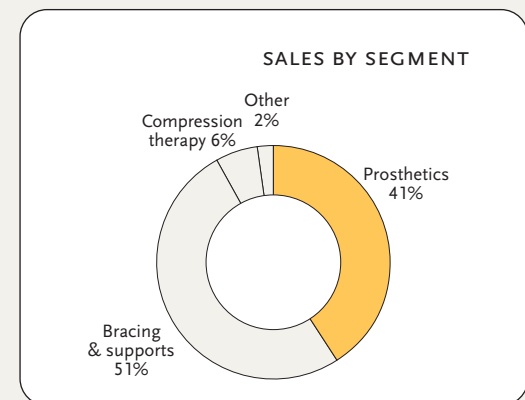
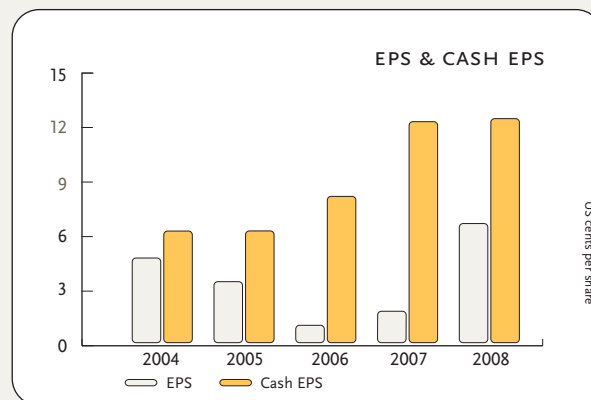
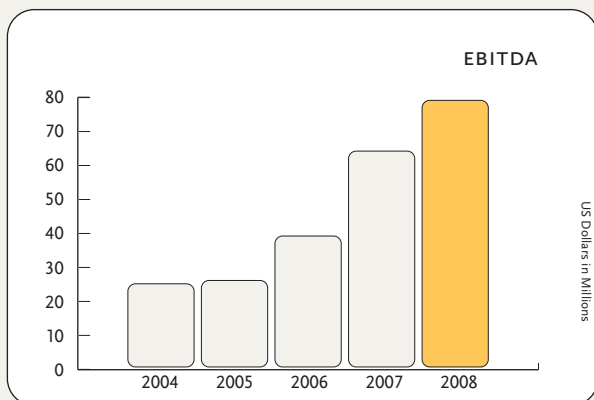
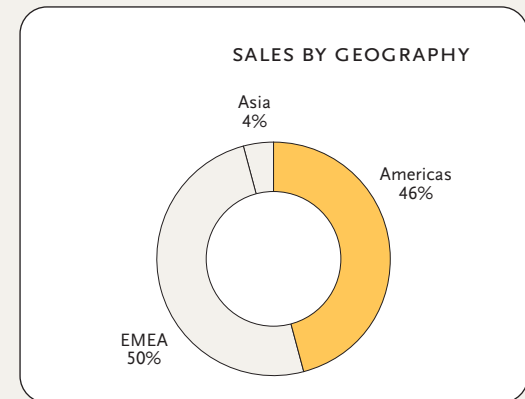
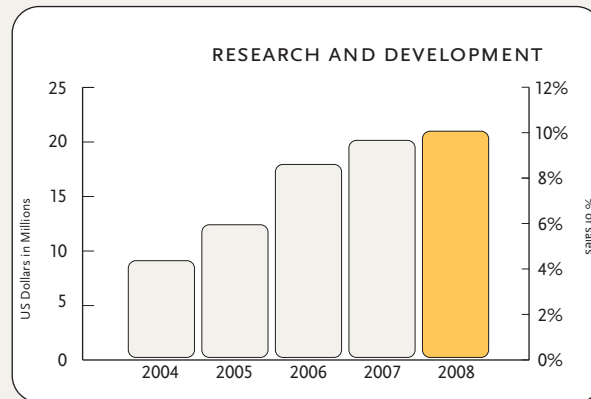
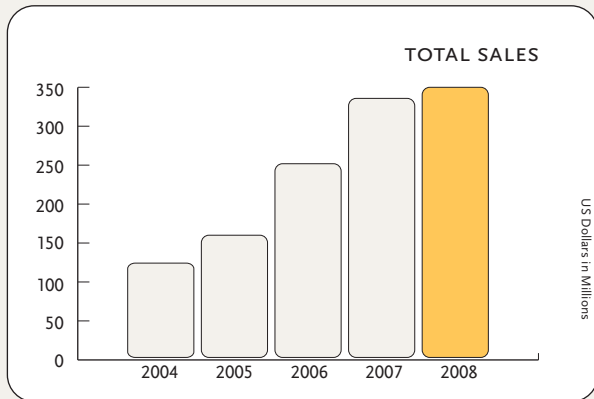




Life Without Limitations®

OSSUR ANNUAL REPORT 2008

KEY FIGURES



OVERVIEW 2008

- THE YEAR WAS CHARACTERIZED BY INTERNAL FOCUS. IN 2008, FOCUSING ON PROCESSES AND PROFITABILITY WAS ONE OF OSSUR'S MAIN TASKS. TWENTY PRODUCTS WERE DISCONTINUED AND PROFITS INCREASED.
- THE TOTAL SALES AMOUNTED TO USD 350 MILLION, REPRESENTING A 4% GROWTH. NO ACQUISITIONS WERE MADE IN 2008. EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (EBITDA) AMOUNTED TO USD 79 MILLION OR 23% OF SALES. EARNINGS INCREASED BY USD 15 MILLION.
- GROWTH IN THE SALES OF PROSTHETICS CONTINUES, INCREASING 9%, WHICH CONFIRMS OSSUR'S STRONG POSITION IN THIS MARKET SEGMENT, AND THE COMPANY'S TECHNICAL LEADERSHIP. GROWTH IN THE SALES OF BRACING AND SUPPORTS WAS 1% AND SALES OF COMPRESSION THERAPY PRODUCTS GREW BY 5%.
- WORKING CAPITAL FROM OPERATING ACTIVITIES INCREASED BY 32% AND NET CASH PROVIDED BY OPERATING ACTIVITIES INCREASED BY 16% BETWEEN YEARS.
- THE EQUITY RATIO AT THE END OF THE YEAR WAS 41% COMPARED TO 39% AT THE END OF 2007
- IN MARCH, OSSUR DIVESTED ITS ADVANCED WOUND CARE PRODUCT LINE TO BSN MEDICAL GMBH. THE DIVESTMENT AFFECTS OSSUR'S 2008 INCOME STATEMENTS BY USD 8.4 MILLION, INCLUDED IN OTHER INCOME.
- THIS PAST YEAR, INTERNAL PROCESSES HAVE BEEN STRENGTHENED AND NUMEROUS INITIATIVES HAVE BEEN SET, BUILDING A PLATFORM THAT WILL FUEL SALES GROWTH IN 2009.

OPERATING PROSPECTS

The Company will continue to be profitable and create strong cash flow going forward. Ossur has a strong balance sheet and secured long term financing, which makes the Company well positioned in case of a prolonged economic downturn. Management estimates, based on the assumptions that Ossur's core markets stay relatively unaffected, a modest growth in local currency and similar EBITDA levels as 2008. The Company's strong market share, infrastructure and its sound financials makes it well equipped to take advantage of potential market opportunities that might emerge from recent turmoil.

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SOLID STEPS

This past year the world witnessed extreme economic turmoil. While not immune to slowdowns, Ossur operates within the healthcare sector, which has limited sensitivity to economic fluctuations. Our operational environment is rather stable and therefore the negative developments in the financial markets have not had a significant impact on our underlying business. In fact, Iceland's much publicized economic woes have had little impact on our operations. However, if we see a continued economic downturn, it's impossible to predict if and how the economy will affect the healthcare sector.

But our commitment to the Company's main principles will help us thrive. Ossur's corporate structure is characterized by initiative, ambition, drive and cooperation. The Company's core values honesty, frugality and courage are the foundation upon which we build our work.

Our objective is to continue as a leader in the non-invasive orthopaedics market. To maintain our reputation as a market leader and to achieve Company goals, we must not only stay focused on all aspects of the orthopaedics industry, but seek out opportunity and innovation.

In 2005, Ossur became a significant player in the bracing and support market of orthopaedics. Three years later, we are a market leader in bracing and supports. Ossur has seen sales grow on average 30% annually over the past five years. To continue growing successfully, we must make sure Company fundamentals are solid, because it is our values that inspire us, and ensure company growth, which not only increases profitability, but also achieves our overriding mission: enabling customers to live life without limitations.

Like a child, a company often grows faster than it matures. Ossur has experienced rapid growth, which is why in 2008 we took time to mature by focusing on internal projects and processes. After acquisitions within the Americas division, Ossur had over 300 new employees. We needed to reorganize our sales team and practices, make sure everyone was in tune with Company values. While we still have some growing pains, by focusing on product rationalization and by using the synergies created through our acquisitions, profitability increased dramatically in 2008. We will continue to focus on our internal projects and position ourselves to be able to exploit future opportunities that await the Company.

Ossur invests in Research and Development to make sure we continue to produce cutting-edge products. This investment can open new doors to opportunities. One new opportunity is advanced wound care, which in the first quarter of 2008 was divested. Our R&D saw an opportunity and using the material know-how we have with silicone technology, created a new wound care product. To be able to design and manufacture a new product line, not in the core area of our business, further confirms the strength of our research and development team and underpins our commitment to invest in R&D activities.

A steady pipeline of products and sustained technological leadership in our core competencies are on our agenda for next year. Continued investment in our patented and proprietary know-how – silicone, carbon composites, textiles and cutting edge bionic technology – will produce new and better products as we advance towards the new decade. And we will take care to ensure our innovations fit within current reimbursement systems, broadening access to these effective solutions.

Enabling people to live life without limitations is not just a phrase. It's a commitment. So it brought us great pleasure to watch the Paralympic Games, hosted by Beijing this past September. As usual, members of Team Ossur returned home with countless medals and lasting memories of an amazing event. All of us at Ossur are extremely proud of them. One of those heroes also made it onto another high-profile platform. Oscar Pistorius was named as one of the most 100 influential people in the world by TIME magazine, and he continues to inspire and motivate people all over the world.

Jon Sigurdsson
President & CEO

STRATEGY - MAIN FOCUS AREAS 2009

MISSION

WE IMPROVE PEOPLE'S MOBILITY

VISION

LEADING COMPANY IN NON-INVASIVE ORTHOPAEDICS

CUSTOMER

Ossur's objective is to offer high quality products and a high level of service to customers.

PROFITABILITY

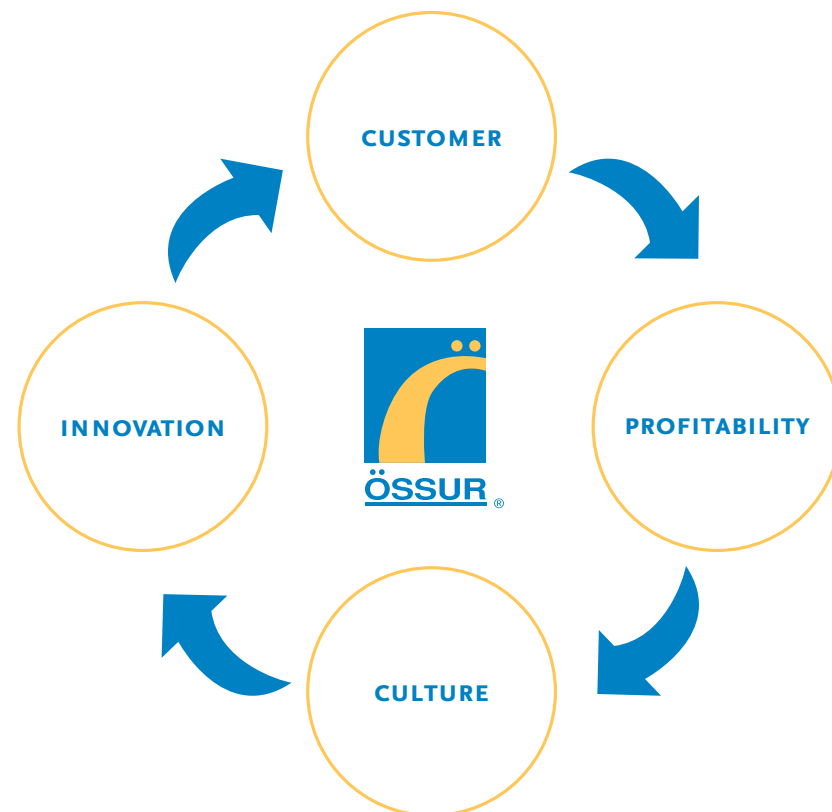
Ossur strives for constant improvements and believes a profitable operation is the key to success.

CULTURE

Ossur believes it nourishes its culture by recruiting, training, motivating and rewarding ambitious employees. The foundation for successful cooperation is that all employees honor Ossur values in their relations with colleagues as well as customers.

INNOVATION

The Company will continue to invest significantly in research and product development. Ossur's goal is to be a source of innovative, high-quality orthopaedic products and services.



CORE VALUES

HONESTY

We show respect by adhering to facts and reality, fulfilling promises and claims, and admitting failures. We nurture honest communication throughout the company by sharing information and respecting each other's time and workload.

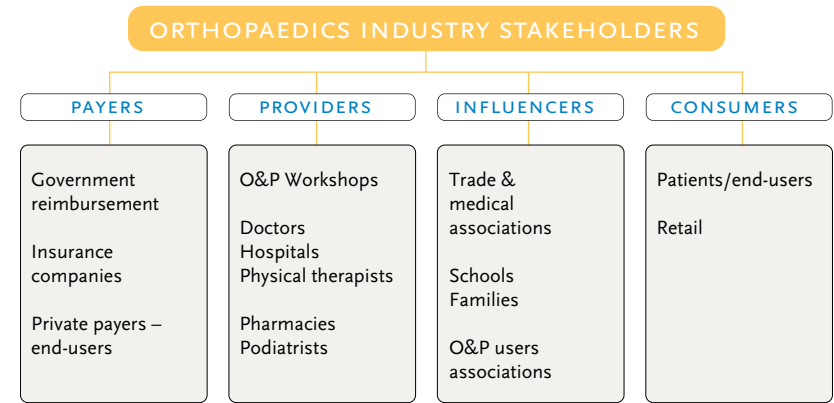
FRUGALITY

We use resources wisely. We aim to minimize cost across all areas of our business through effective communication, preparedness, planning and optimized processes.

COURAGE

We are open to change and constantly strive for improvement. We challenge unwritten rules, show initiative and take risks, while at the same time taking responsibility for our ideas, decisions, and actions.





MARKET AND ENVIRONMENT

Ossur operates within the orthopaedic industry of the medical device market. The segment the Company focuses on is non-invasive orthopaedics, including prosthetics, bracing and supports, and compression therapy.

INDUSTRY DYNAMICS

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

TECHNOLOGICAL EVOLUTION

Technological advances continuously bring forth improved products that offer increased quality of life and mobility to patients and users. Such technological advances lead to market growth by opening up new customer segments and stimulating demand for more technologically sophisticated solutions.

DEMOGRAPHICS

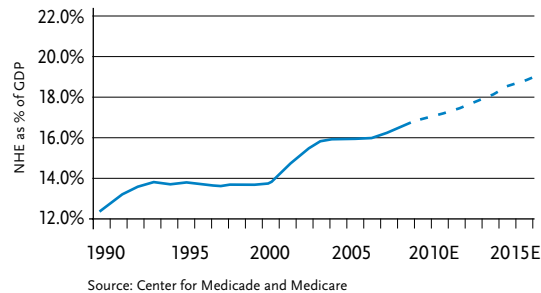
An aging population, a rise in disposable income, increased social demands and lifestyle issues form the underlying market fundamentals within the orthopaedic industry.

The increasing proportion of the population aged 65 and older will underpin market growth in the prosthetic

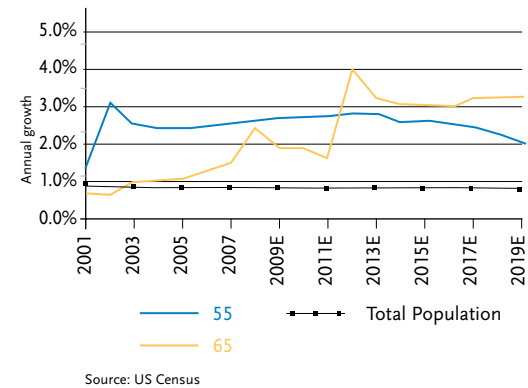
industry, as an aging society increases the frequency of vascular diseases and diabetes, the two main causes of amputation. According to the Amputee Coalition of America, approximately 1.2 million, or over 80% of all amputees in US (excluding fingers and toes), are over 65 years of age.

An aging population also means an increasing amount of fractures, joint instability and joint afflictions, such as osteoarthritis, causing the increased demand for various bracing and supports products, especially as US and European seniors are becoming more affluent, more informed and increasingly aware of the benefits of active living. The same population will furthermore drive growth for compression therapy products, as the elderly are the primary users of compression therapy products.

HEALTHCARE EXPENDITURES CONTINUE TO RISE



DEMOGRAPHIC TRENDS ARE POSITIVE FOR HEALTHCARE SERVICES



LIFESTYLE ISSUES

Obesity has reached epidemic proportions globally. The World Health Organization (WHO) estimates that more than 1.6 billion adults are overweight, and at least 400 million of them clinically obese. Obesity and an overweight population pose a major risk for chronic diseases, such as type 2 diabetes and cardiovascular disease, the main causes of amputation. The need for prosthetics, bracing and supports, and compression therapy should increase along with an increase in the amount of people suffering from obesity.

Further industry drivers are other lifestyle issues, such as increased participation by the general public in sports, which is driven by a more health-conscious population and the awareness of the advantages of an active life-

style. As participation of general public in sports grows, the demand for different types of support products will continue to grow due to the increased number of sports-related injuries and an increased demand for preventive products.

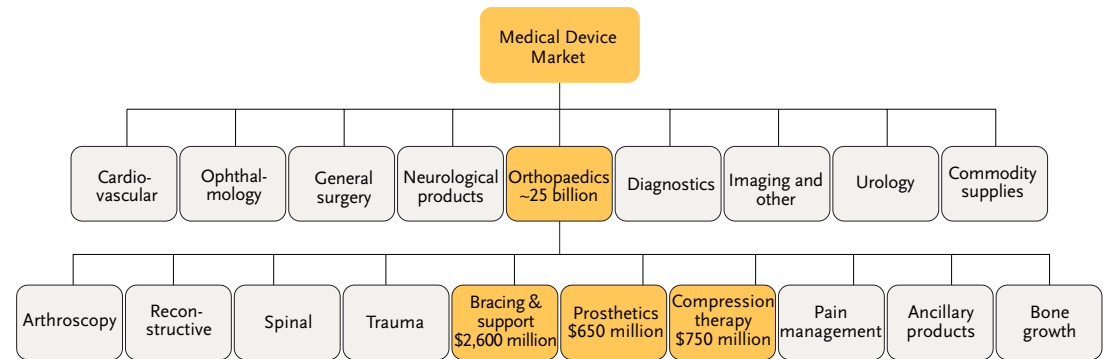
REGULATORY ENVIRONMENT

Healthcare providers are often constrained by budgets, and accordingly the regulatory environment demands cost-effective solutions without compromising quality. This has led to considerable investments in systems demonstrating and providing cost-benefit analysis for potential buyers. The ability to respond quickly to changes in the regulatory environment and to adapt products to meet the prevailing regulatory systems are the two most important challenges facing a provider operating within the orthopaedics industry.

MARKET

According to Frost & Sullivan and Ossur management estimates, the size of the global non-invasive orthopaedic market was roughly USD 4.4 billion in 2008, and growing annually at an estimated rate of 3 to 4%. The healthcare sector that Ossur operates in has limited sensitivity to economic fluctuations. Still, due to the dramatic changes in the global financial environment since 2007, Ossur management believes that the market will grow at the lower end of the market growth range in 2009.

GLOBAL ORTHOPAEDIC MARKET



Source: Frost & Sullivan and management estimates

BRACING AND SUPPORTS

Bracing and supports products are used for a number of both prophylactic and therapeutic applications, among others for protective and post-operative purposes. Bracing and supports are mainly used for recovery from sports-related injuries in all age groups, protection from injury in the aging and active segment of the population, and to an increasing extent also in the treatment of obese patients.

The total size of the bracing and supports market in Europe and the US was estimated by Frost & Sullivan to be approximately USD 2.1 billion in 2006. Due to the strengthening of the Euro against the US dollar, and estimated growth of approximately 3% per year, the global bracing and supports market is estimated to be approximately USD 2.6 billion in 2008. The US is by far the largest market with forecasted sales of approximately USD 1.6 billion in 2008.

The bracing and supports market is fragmented, particularly in Europe where the top five companies in terms of

sales hold roughly a 65% market share. The Asian market is large and diverse, and in many places less developed than the US and European markets.

PROSTHETICS

Individuals who have experienced some form of amputation use prosthetics products. Ossur focuses on design, development, production and sale of prosthetic products replacing amputated limbs.

Ossur estimates that the total size of the global market for prosthetic products will be roughly USD 650 million in 2008. The US market is estimated to account for approximately USD 350 million. The US, European and Asian markets are estimated to be growing annually at 3% per year.

The prosthetic market has been largely consolidated over the last few years. Technological advancements over this time have had a significant impact on revenues within the prosthetic industry. Stable long-term market growth

is anticipated due to increases in the consumer base and periodic replacement of prosthetic devices.

COMPRESSION THERAPY

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

The compression therapy market has seen a steady growth in recent years, especially the European market. Frost & Sullivan expects it to grow 7 to 8% annually for the next four to five years. The total size of the market is estimated to be between USD 750 million in 2008.

The introduction of technically advanced products is expected to fuel the market's growth and is likely to have a greater impact on the market.

OSSUR MAIN COMPETITORS:

BRACING AND SUPPORTS

DJO
BREG
THUASNE
DEROYAL
BAUERFEIND
OTTO BOCK

PROSTHETICS

OTTO BOCK
OHIO WILLOW WOOD
MEDI

COMPRESSION THERAPY

GANZONI
INNOTHERA
THUASNE
BSN/JOBST
MEDI

DRIVERS AND RESTRAINTS IN BRACING AND SUPPORTS, PROSTHETICS AND COMPRESSION THERAPY MARKET

DRIVERS:

- AGING POPULATION
- INCREASED HEALTH AWARENESS AND DEMAND FOR HIGHER QUALITY OF LIFE
- INCREASED INSTANCES OF OBESITY
- INCREASED PREVALENCE OF DIABETES AND VASCULAR DISEASES
- NEW TECHNOLOGIES
- MINIMAL SIDE-EFFECTS
- INCREASED DEMAND FOR NON-INVASIVE TREATMENTS
- INCREASING ACCEPTANCE OF PRIVATE PAY

RESTRAINTS:

- EFFORTS TO HOLD BACK GROWTH IN HEALTHCARE EXPENDITURE
- CHANGES AND LIMITATIONS IN REIMBURSEMENT SYSTEMS
- ADVANCES IN VASCULAR SURGERY
- EASILY ACCESSIBLE PAIN MEDICATION AS AN ALTERNATIVE TO BRACING AND SUPPORTS
- IMPROVED INVASIVE PROCEDURES

REIMBURSEMENT

Almost all of Ossur's products are reimbursable. Prescription-based bracing and supports, and prosthetics products are as a rule reimbursable. The level of reimbursement of compression therapy products differs between markets. In Europe, compression therapy products are as a rule reimbursable, while in the US there is hardly any reimbursement.

Reimbursement systems vary substantially between different countries and product markets. Considering the importance of reimbursement, Ossur uses its reimbursement know-how from the earliest stages of product development to the education of customers post sale. Specific steps include: addressing potential reimbursement issued for a new product in the early stages of the design process, focusing on generating products with demonstrable clinical benefits, applying for admission of products to official lists of reimbursable products, and providing tools for customers to assist them with obtaining reimbursement information.



PROSTHETICS

The Ossur prosthetic range offers innovative products designed according to highest quality standards, ensuring comfort, functionality and high performance. Ossur's ambition is to develop superior products that imitate the function of the human body as closely as possible.

The application of award winning technologies, expert design and biomechanical understanding, results in prosthetic devices that give users comfort and performance without compromise. Ossur's prosthetic product lines have a full spectrum of premium lower limb prosthetic components, designed to reflect the individual nature of users.

with high performance carbon fiber feet, suitable for all ages and activity levels, from community ambulators, to top athletes. The original silicone interface, Icross®, continues to revolutionize liner technology with the new Seal-In option, while prosthetic knees include the renowned Total Knee® and Mauch hydraulic system for fluid, natural gait.

Ossur's prosthetic product line represents the best in modern prosthetics. The name Flex-Foot® is synonymous



ICROSS SEAL-IN® X5



MAUCH® KNEE



FLEX-RUN®



VARI-FLEX®

BIONIC TECHNOLOGY BY OSSUR

A precise fusion of electronics, mechanics and human physiology is at the heart of Ossur's vision to restore maximum biological function to amputees. The integration of electronic and/or mechanical components, defined as smart structures, is intended to replace and enhance anatomical structure or human physiological processes.

Ossur's Bionic product line consists of three superior prosthetic products: RHEO KNEE, POWER KNEE and PROPRIO FOOT. These are bionic prosthetic limbs that function as an integrated extension of its user by applying a synthesis of mechanics and electronics which serve to mimic natural sensory and motor control functions to the amputee. This enables the prosthetic to accurately reproduce biomechanical functions that have been lost due to amputation and the result is a replication of physiological function that is natural,

reliable, comfortable and optimized for the individual user. RHEO KNEE – the world's first microprocessor swing and stance knee system - is the first product developed by Ossur within the Bionic product category. POWER KNEE synchronizes motion with the sound leg of its user, whereas PROPRIO FOOT is the world's first intelligent foot module, offering function that is as close to the human foot as is possible today.



PROPRIO FOOT®



POWER KNEE™



RHEO KNEE®

bionic
TECHNOLOGY BY OSSUR



OPERATIONS

Ossur is a global orthopaedics company, a leader in the development, manufacturing, distribution, sales and marketing of bracing and supports products and prosthetics.

FUTURE VISION

Ossur's business is focused on improving people's mobility through the delivery of innovative technologies within the fields of bracing and supports, prosthetics and compression therapy. The Company's vision is to continue to maintain its leading position in the non-invasive orthopaedics market.

Currently, Ossur is the second-largest provider of prosthetic products in the world and is known as a technical leader in the field. The Company is the second-largest

player in the bracing and supports market, and aims to further strengthen its position through innovation. Today, Ossur compression therapy products are only sold in the French market, where the Company is the fifth-largest player.

To continue its ongoing leadership in the non-invasive orthopaedics market, Ossur will focus on customers, profitability, innovation and company culture.

ORGANIZATIONAL STRUCTURE

Ossur is a limited liability company with its headquarters in Reykjavik, Iceland. The Ossur Consolidation consists of 14 subsidiaries in nine countries: Ossur hf. in Iceland; Ossur EMEA with offices in the UK, the Netherlands and Sweden; Gibaud in France; Ossur Asia in China and Aus-

IN 2008, TOTAL SALES AMOUNTED TO USD 350 MILLION. THE SPLIT BETWEEN THE COMPANY'S MAJOR MARKETS WAS CLOSE TO EVEN AS THE AMERICAS DIVISION ACCOUNTED FOR 46% AND EMEA 50%. THE ASIA DIVISION ACCOUNTS FOR 4%.

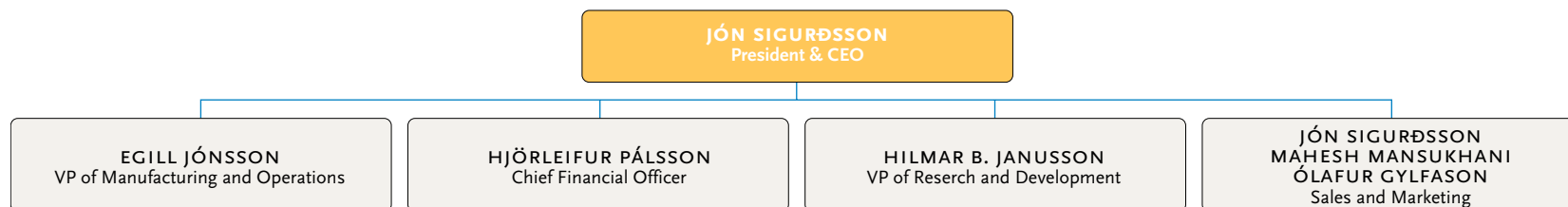
tralia; and Ossur Americas in the US and Canada. The Company's headquarters include administrative functions, Corporate Finance, Research & Development and prosthetic production.

In September, a matrix organizational structure was replaced by a functional organization structure with four main functions: Sales and Marketing, Manufacturing & Operations, Research & Development and Corporate Finance. The main objective of these changes is to facilitate and strengthen consolidation efforts.

SALES

Localized marketing, sales, distribution and services are handled by the sales offices: Ossur Americas Inc, located

EXECUTIVE MANAGEMENT



The Executive Management has overall responsibility for the Company's strategy and the coordination of activities between various functions and the execution of operational plans.

in California; Ossur Canada (in Canada); Ossur Europe B.V., in the Netherlands; Ossur UK; Ossur Nordic AB, in Sweden; Gibaud Group, located in France; and Ossur Asia with offices in China and Australia.

OSSUR AMERICAS

In 2008 Ossur Americas total sales amounted to USD 163 million, accounting for 46% of Ossur's total sales.

Ossur Americas is responsible for sales and marketing in America, Latin America and Canada. The sales force in Ossur Americas consists of 186 employees, 135 in bracing and supports and 51 in prosthetics. The strength of the sales team is derived from a customer-focused organization, aligned with major orthopaedic clinical

disciplines. Prosthetic sales has one customer segment, whereas bracing and supports is split between three customer segments: Sports Medicine & Extremities; Trauma & Spine; Podiatry & Retail. In addition to the sales force, the sales channel includes 460 distributors.

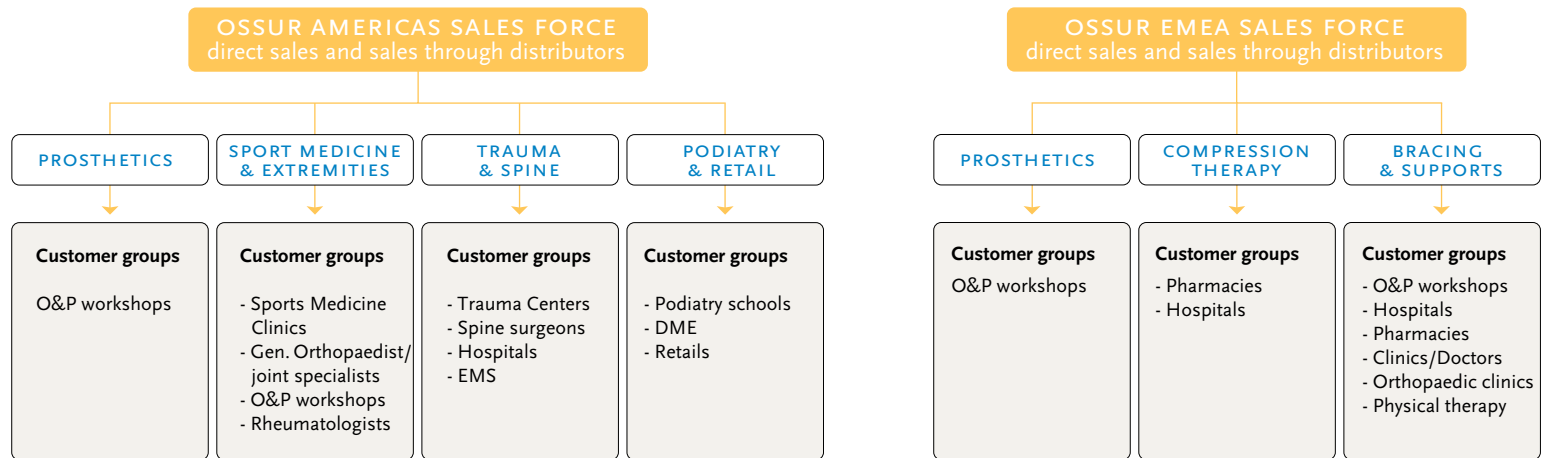
BRACING AND SUPPORTS

Sales of bracing and supports is both direct and through distributors. This product segment has a diverse product offering and more specialized customer groups than prosthetics. In 2008, Ossur Americas has focused on increasing the diversity of customers and has signed two distribution agreements for bracing and support products, which are expected to have a positive effect on sales. General Purchase Organization (GPO) contracts are important for future growth in Ossur Ameri-

cas. Ossur is preparing for participation in several GPO contracts in 2009. Participation in GPOs is a positive addition to the current customer group of bracing and supports products, and an important opportunity for Ossur Americas to further diversify its customer group.

PROSTHETICS

Ossur Americas has had a strong prosthetics sales team for many years. Direct sales to O&P workshops account for the majority of prosthetic sales, but Ossur Americas also has a distribution agreement with Hanger Orthopaedic Group/SPS, the largest network of O&P workshops in the US.



OSSUR EMEA

In 2008 Ossur EMEA total sales amounted to USD 174 million, accounting for 50% of Ossur's total sales.

Ossur EMEA is in charge of sales, marketing, distribution and services in Europe, including the Nordic Region, the Middle East and Africa. EMEA is split into six geographical regions: UK, Nordic, Germanic, Benelux, Southern Europe, France.

The EMEA sales force consists of 136 employees, 32 in prosthetics, 104 in bracing and supports and compression therapy. In addition to the sales force, the sales channel includes roughly 100 distributors.

BRACING AND SUPPORTS

In EMEA, the O&P channel accounts for only a small portion of the bracing and supports market. Segments like

hospitals with various divisions/departments, prescribers, pharmacies and private clinics are a much larger part of the customer group. The importance of each channel varies between countries in Europe. In addition, bracing and supports products are sold through roughly 100 distributors in the Germanic and European countries, Eastern Europe, the Middle East and Africa.

PROSTHETICS

Sales of prosthetics are direct to O&P workshops in 16 European countries. In addition, prosthetics are sold through 15 distributors, servicing O&P facilities in Eastern Europe, the Middle East and Africa.

COMPRESSION THERAPY

Compression therapy products are currently only sold in France. The main customer segments are pharmacies and hospitals.

OSSUR ASIA

In 2008 Ossur Asia total sales amounted to USD 13 million, accounting for 4% of Ossur's total sales.

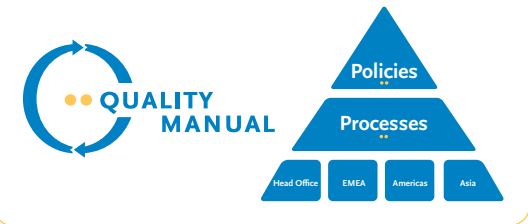
The market for Ossur Asia spans from Pakistan to New Zealand with key focus markets currently being Japan, Australia, China, Korea and Taiwan. The sales force in Asia consists of 33 employees, 21 located in China, nine in Australia and three in Japan.

The sales channel in Asia includes both direct sales and sales through distributors. In China, bracing and supports are primarily sold through local distributors, whereas prosthetics are mostly sold through an exclusive distributor. In Australia, bracing and supports are sold through local distributors and prosthetics are sold directly. In other Asian markets sales are through distributors.



NUMBER OF M&O EMPLOYEES

LOCATION	MANUFACTURING	DISTRIBUTION
EUROPE	347	62
AMERICAS	284	72
ASIA	6	0



Customer segments in Australia include O&P facilities, hospitals and clinics, as well as podiatrists and physiotherapists. In China, Japan and other Asian markets the main customer segment is currently O&P facilities. However, hospitals and clinics are gaining in importance.

MANUFACTURING & OPERATIONS

Ossur is constantly striving for increased efficiency. Its overall strategic goals include cost leadership within the orthopaedics industry. To maintain a strong manufacturing unit there are three main areas of focus: having highly motivated and skilled employees, a good planning process, and up to date and appropriate manufacturing technology and equipment.

Manufacturing of prosthetics takes place in Iceland, except for the product lines of mechanical knees. Manufacturing of bracing and support products takes place in the US and France. Additionally, some of the bracing and supports production is outsourced to Asia.

Ossur continues to build on its knowledge and expertise in the production processes for outsourcing to vendors. Knowledge in this field is valuable, and Ossur intends to leverage these 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.

During 2008, Ossur continued to outsource some of its off-the-shelf products manufactured in the US to Asia. In order to maximize quality and minimize production costs, Ossur works closely with each of its vendors, and each vendor is subject to frequent reviews. In 2008, around 26% of the Company's production was outsourced to Asia.

QUALITY

As a healthcare company, Ossur complies with various legal requirements and all processes and documentation need to be of the highest standard. Since 1993, Ossur has had in place a certified quality system. The Company places great emphasis on quality. Being a manufacturer of medical-device products, it is highly 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.

All Ossur products are CE-labeled to meet the requirements of the European Economic Area, and in the United States they meet FDA standards.

British Standard Institution (BSI) performs external audits at Ossur. In 2008, 14 such audits were conducted.

OSSUR COMPLIES WITH
ISO 9001:2000 AND ISO 13485:2003.



R&D AND PRODUCT DEVELOPMENT

Ossur's strategy is to be a source of innovative, high-quality orthopaedic products and services. The Company has always seen R&D as essential to future development and is determined to maintain its technological competency through investment in research and development. In 2008, Ossur's investment in R&D amounted to 6% of the Company's total sales. Further details on research & development are in the respective chapter on page 24 of this report.

CORPORATE FINANCE

Corporate Finance is a global function, in charge of administration of the overall finance of the consolidation. Corporate Finance is responsible for structuring and platform development in all its subdivisions. Under the umbrella of Corporate Finance are Human Resources, BIS, Corporate Development and Treasury and Planning and Analysis strategically placed in various locations.

CORPORATE FINANCE MAIN ACTIVITIES

CORPORATE DEVELOPMENT TREASURY & IR	PLANNING & ANALYSIS	HR	BIS
<ul style="list-style-type: none"> M&A analysis/process mgmt. Strategic analysis Project management Legal Equity financing Debt financing Internal financing Hedging & Fx management Working capital management Investor relations Global insurance contracts 	<ul style="list-style-type: none"> Consolidated Financial Statement Accounting coordination Tax planning/transfer pricing Audit Internal control Resource planning process 	<ul style="list-style-type: none"> Talent management Incentive systems Values HR intelligence Collaboration content 	<ul style="list-style-type: none"> Master data management BI platforms Collaboration platforms ERP systems Software licencing agreements Server infrastructure Security

LOCATIONS

OSSUR HEAD OFFICE

Reykjavik, Iceland

OSSUR AMERICAS

NORTH AMERICA

Aliso Viejo, California
Camarillo, California
Foothill Ranch, California
Paulsboro, New Jersey
Albion, Michigan

CANADA

Vancouver, Canada

OSSUR EMEA

EUROPE

Eindhoven, The Netherlands
Pulheim, Germany
Manchester, UK
Uppsala, Sweden
St. Etienne, France

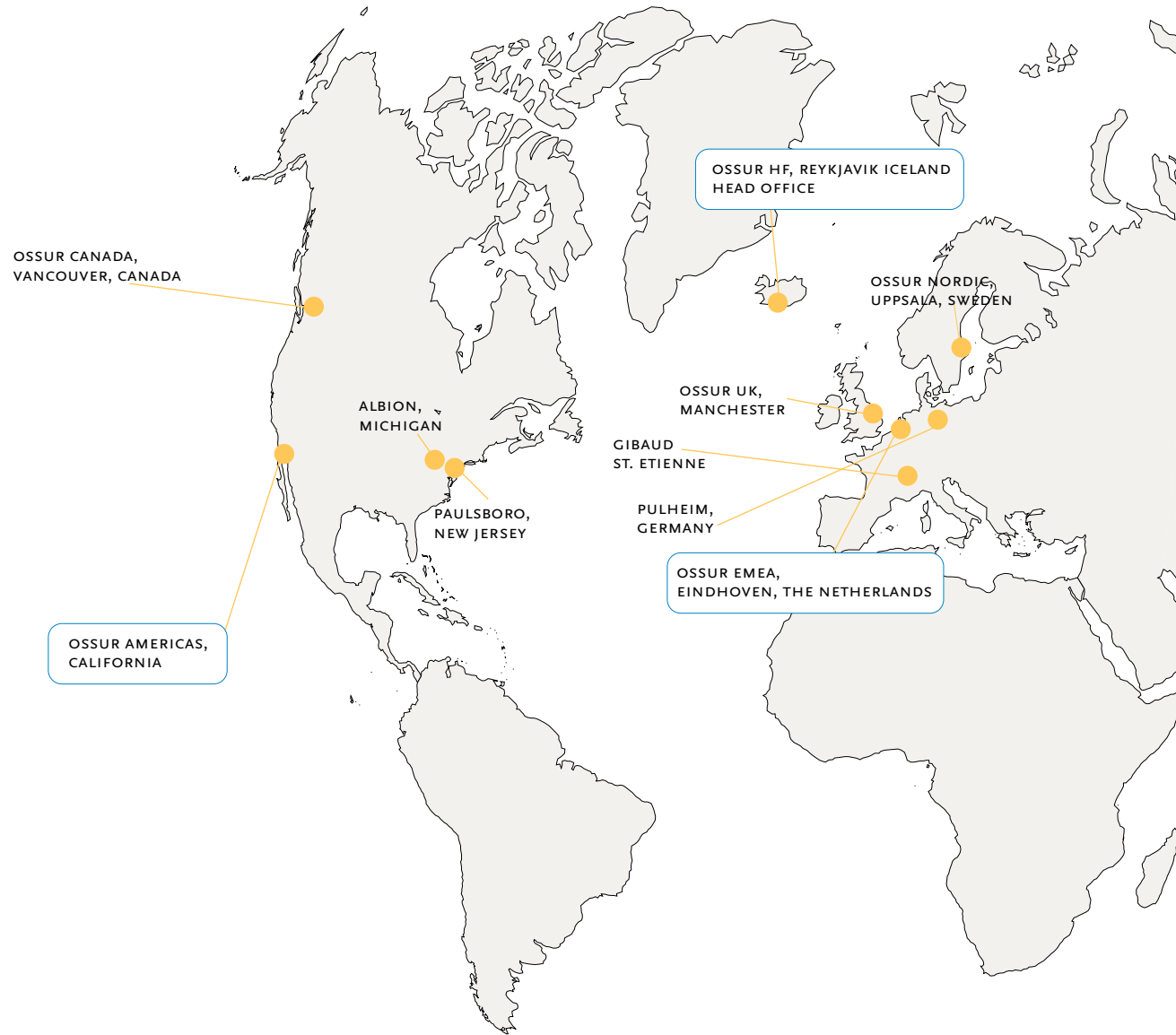
OSSUR ASIA

CHINA

Shanghai, China

AUSTRALIA

Sydney, Australia





OPERATIONS

The Ossur Consolidation consists of fourteen subsidiaries in nine countries. Ossur hf. in Iceland, Ossur EMEA with offices in the UK, the Netherlands, Germany and Sweden; Gibaud in France; Ossur Asia in China and Australia; and Ossur Americas in the US and Canada.

Ossur has a diverse revenue base, well balanced between Europe and the United States. In 2008 the sales were distributed as follows: 46% from Americas, 50% from EMEA and 4% from Asia.

	Americas	EMEA	Asia	Head Office
Sales 2008	USD 163 million	USD 174 million	USD 13 million	-
Employees	645	621	51	270
Sales	186	136	33	-
Manufacturing	284	347	6	141
Distribution	72	62	0	-
R&D	18	10	9	50
Estimated market share				
Bracing and supports	10%	12%	2%	-
Prosthetics	22%	21%	17%	-
Compression therapy*	0%	6%*	0%	-

*Currently only sold in France, market share in the french market.

OSSUR IS THE SECOND-LARGEST PLAYER IN THE WORLD IN THE SEGMENTS OF BRACING AND SUPPORTS AND PROSTHETICS.

BRACING AND SUPPORTS & COMPRESSION THERAPY

The development of the Ossur bracing and supports and compression therapy product range combines some of the most effective technologies available today with over 30 years of design experience and a broad knowledge of biomechanics and materials.

Ossur offers a comprehensive line of products for the ankle, foot and knee as well as the neck and spine. In addition, the product offering includes slings, supports, splints and braces for upper extremities. The compression therapy product line offers bandages, tights, stockings, knee-highs and stump socks designed to provide compression and support in treatment of varicose veins and oedema.

Ossur's knee bracing product line consists of state-

of-the-art ligament, osteoarthritis, and post-operative braces. Osteoarthritis knee braces offer a non-invasive, economical treatment option for pain relief and improvement of mobility. Ossur's Unloader brand is a well established leader in the OA bracing segment. The Company's ligament brace lines, such as CTi offer a wide range of options to stabilize, protect and/or rehabilitate knees. The efficacy of Ossur knee bracing is validated by numerous published and presented clinical and biomechanical outcome studies.

Ankle and foot braces and supports are designed to provide a personal fit, warmth, compression and support for mild to moderate ankle strains and sprains so that the user can continue with daily activities. They are also designed to provide additional support post injury.

Upper extremity braces and supports help support joints and muscles and retain body heat which can aid in circulation. They are used to provide treatment of various injuries and conditions, such as carpal tunnel



UNLOADER ONE®



CTi® OTS



EXOFORM® WRIST



MIAMI J®



EQUALIZER® AIR WALKER

syndrome, mild to moderate injuries to the wrist, hand or arm, as well as post cast healing.

With the world's leading c-spine care system and a comprehensive acute fracture management offering, Ossur has products needed during each phase of the acute care continuum from pre-hospital extrication and transport through rehabilitation. This product line includes such renowned brands such as Miami J and Philadelphia® Cervical Collar.



GIBAUD_PCTA®



VENACTIF® COMFORT



LOMBOGIB JEANSWEAR®



TEAM OSSUR AND THE PARALYMPIC GAMES

From September 6 - 17, the Chinese city of Beijing came under the global spotlight. Taking center stage were elite athletes from more than 150 countries who, along with thousands of spectators, flocked to the city and surrounding areas to celebrate the largest competitive gathering of its kind, the Paralympic Games.

Among the sporting superstars were 18 members of Team Ossur, a group of elite athletes that use Ossur's prosthetic products. Winning an astounding total of 11 Gold, 6 Silver and 4 Bronze medals between them, they also managed to break 6 World Records and 3 Paralympic Records.

The Games were covered by global media outlets and garnered more attention than ever before. Ossur hosted a press conference to introduce Team Ossur members

to the media and among the 48 media outlets that attended were Reuters, AP, New York Times, Sports Illustrated, Washington Post, and the BBC. Over 64 articles appeared in Chinese print media alone, with a circulation of approximately 40 million readers. In addition to print media, television and web coverage was also substantial.

Among the stars of Team Ossur and the Paralympic Games, was Oscar Pistorius, a bilateral amputee world champion sprinter who became the first ever Paralympian to win Gold in each of the 100, 200 and 400 meter sprints. In January 2008, the International Association of Athletics Federations (IAAF) banned him from competing against able-bodied runners on the grounds that his prostheses give him a technical advantage. In May 2008, Mr. Pistorius took his case

before the Court of Arbitration for Sport (CAS), which overturned the IAAF's findings and ruled in favor of Mr. Pistorius.

Ossur is extremely proud and honored to be associated with all of the members of Team Ossur and congratulates them on their accomplishments.

TEAM OSSUR MEDAL STANDINGS

- ● Jackie Tony Christiansen - Shot Put F44, Discus Throw F44
- Earle Connor - 100m T42
- Wojtek Czyz - Long jump F42/F44
- Brian Frasure - 100m T44
- ● Rudy Garcia-Tolson - 200m Individual Medley SM7, 100m Breaststroke SB7
- April Holmes - 100m T44
- Urs Kolly - Pentathlon P44
- Marie-Amelie Le Fur - Long Jump F44
- ● Oscar Pistorius - 100m T44, 200m T44, 400m T44
- ● Annette Roozen - Long Jump F42, 100m T42
- ● Jeff Skiba - Pentathlon P44
- Casey Tibbs - Long jump F42/F44
- Team USA (Brian Frasure & Casey Tibbs) - 4x100m relay T42-46



TEAM OSSUR IN BEIJING 2008

11 GOLD • 6 SILVER • 4 BRONZE



BRIAN FRASURE



CASEY TIBBS



JEFF SKIBA



STEFANO LIPPI



CLAUDIA BIENE



MARLON SHIRLEY



MARIJE SMITS



WOJTEK CZYZ



DANNY ANDREWS



URS KOLLY



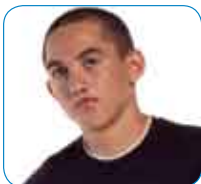
APRIL HOLMES



JACKIE TONY CHRISTIANSEN



ANNETTE ROOZEN



RUDY GARCIA-TOLSON



EARLE CONNOR



MARIE-AMELIE LE FUR



ANDREA SCHERNEY

OSCAR PISTORIUS

RESEARCH AND DEVELOPMENT

Ossur is committed to research and development. Each year, the Company invests a sizeable amount in activities relating to R&D. In 2008, the Company's investment in R&D amounted to USD 21 million, which corresponds to 6% of the Company's total sales. Investment in R&D activities, combined with the R&D team's expertise and technical capabilities, enable Ossur to continually introduce pioneering products that make a dramatic impact on the orthopaedic community. At the same time, continuous introduction of new products, product improvements and product rationalization, secure the Company's organic growth. All of Ossur's internal R&D investments continue to be expensed as incurred through the income statement. R&D global functions: product management, engineering, project office and intellectual property management, work closely with other departments of the Company in all locations. Currently, Ossur operates four R&D departments located in four countries. Each R&D department is strategically positioned close to Ossur marketing and/or manufacturing locations.

PRODUCT MANAGEMENT

Global product management is a corporate function at R&D. Its role is to create and implement product strategy and vision throughout the Company. This involves analyzing and understanding market dynamics and customer needs, competitors' activities and products as well as the external environment.

Global product management oversees and monitors the product lifecycles, new product introductions and discontinuations. It also develops pricing and positioning strategy.

Global product management is responsible for R&D project portfolio which involves selecting and prioritizing projects to ensure alignment with the Company's overall strategy.

PROJECT SELECTION

R&D project portfolio is managed by utilizing its selection model which is aligned to the Company's vision and strategy. The selection model, proprietary to Ossur, consists of several parameters, such as net present value of

a project, product margin, time to market, proprietary position, etc. The parameters carry different weight, determined by applying the analytical hierarchy procedure (AHP) method. The parameters are used to determine project viability. The executive team adjusts the significance of each parameter annually. Constraint parameters are also included in the selection model in order to assure balance in the project portfolio. Given the constraints and the project score, each project is ranked.

DESIGN PROCESS

If a project passes the selection model it enters the product design process. Moving through the design process, new products must fulfill defined criteria and pass certain milestones before entering the next design phase. Whether applied to in-house development or cooperation projects, the process remains effective and transparent, delivering products that suit the medical needs of users and offer evidence to prove their efficiency.

Combined, these two processes increase the prospect of: a commercially viable product, quality outcome and a successful product launch.

DESIGN PROCESS



ENGINEERING PLATFORMS

Ossur's R&D focuses extensively on further developing the Company's technical platforms, strengthened through years of R&D in the prosthetic field, as well as technical platforms developed in companies acquired in recent years. The Company defines seven areas as core competencies of its R&D engineering: silicone, composites, mechanical, mechatronics, biomechanics, textile and injection molding. Expertise in these areas is utilized in different product lines.

SILICONE:

- Ossur's silicone proprietary formulations provide the right level of softness and strength to suit users' individual needs
- Ossur has been using silicone in prosthetic liner design for over 20 years. Today, silicone expertise is being utilized in bracing and supports as well

COMPOSITES:

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

MECHANICAL:

- Functional design and advanced control systems, lightweight, strong and durable alloys
- Used in mechanical knees, as well as a wide variety of components

MECHATRONICS:

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

BIOMECHANICS:

- Product design meeting the need for comfort, functionality and pain management
- Combining biomechanical understanding, materials expertise and engineering in designing state of the art bracing and supports products

TEXTILE:

- Textile platform is based on proprietary knitting and woven material used at Gibaud, 3D textiles used in bracing and supports and coated textiles in prosthetic liners

INJECTION MOLDING:

- One of the most prolific platforms, especially in bracing and supports products, such as walkers and cervical collars
- Overmolding in orthopedic applications are proprietary techniques of Ossur

R&D LOCATIONS

REYKJAVIK ICELAND	GIBAUD FRANCE	FOOTHILL RANCH CALIFORNIA, USA	SHANGHAI CHINA
<ul style="list-style-type: none"> · Prosthetic development · Product management prosthetics · Clinical trials prosthetics · Intellectual property management · Project office management · Engineering platforms: <ul style="list-style-type: none"> · Silicone · Composites · Mechanical · Mechatronics 	<ul style="list-style-type: none"> · Compression therapy development · Gibaud bracing and supports product management · Textile platform 	<ul style="list-style-type: none"> · Bracing and supports development · Product management bracing and supports · Clinical trials bracing and supports · Partnership with leading orthopaedic clinics · Engineering platforms: <ul style="list-style-type: none"> · Biomechanics · Injection molding 	<ul style="list-style-type: none"> · Electronic sourcing and other outsourcing · Product adaptation to emerging markets · Software engineering

INTELLECTUAL PROPERTY RIGHTS

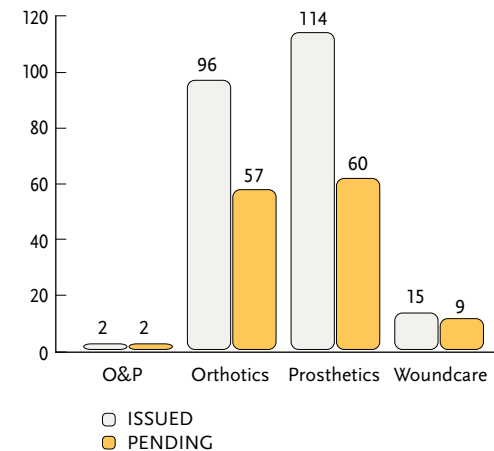
Ossur's objective is to manage and protect its intellectual property rights in line with its business model, which places great emphasis on innovation and the leveraging of technological capacity and expertise to gain market superiority. Intellectual property rights are generated through in-house innovation, acquisitions and user licenses by filing relevant patent and trademark applications, and pursuing these in strategically chosen regions.

Ossur's patent portfolio is well diversified and representative of the business areas within the orthopaedic industry in which Ossur operates.

At the end of 2008, Ossur had 227 US patents and 87 international patents in its portfolio, along with 128 US and 233 pending applications in other countries.

Ossur values the importance of maintaining and preserving its strong brand name. Within the orthopaedics industry, Ossur's brand name is associated with quality and innovation, and strongly attached to its products. At the end of 2008, the Company had a total of 130 registered trademarks in the US with five registrations pending, along with 257 trademark registrations in selected markets.

OSSUR US PATENT PORTFOLIO





HUMAN RESOURCES

The number of employees working for Ossur has increased from 120 to 1586 over the past nine years. This increase has been a challenge, especially in terms of the Company's human resources. For example, employees are presented with challenges that arise from having to communicate with divisions and offices spread across the globe spanning different cultures and timezones. Meetings taking place outside normal working hours and world wide travel demands require Ossur employees to maintain flexibility. Employees must also work together in an integrated manner so global divisions attain their objectives. Part of guaranteeing Ossur's future is to attract employees prepared to contribute to the global success of the Company.

Respect for different cultures is important when operating a global business. The Company's strong core values, honesty, frugality and courage, have helped it adapt to the various cultures Ossur interacts with. The results of Ossur's workplace audit—gauging employee attitudes—in 2008 show that employees appreciate the Company's core values and corporate culture. Year after year, Ossur continues to focus on maintaining its corporate culture that has evolved as Ossur has grown, and has been an important part of the Company's success. Employee behavior, both towards each other and towards Ossur's customers, should reflect the Company's values. Part of employee performance is evaluated by how employees carry out the Company's core values.

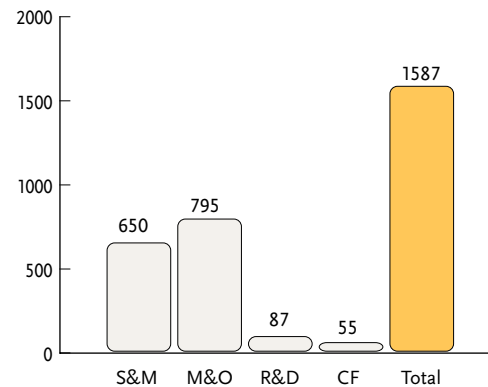
Ossur's business objectives are clear. The results of Ossur's workplace audit in 2008 confirm that employees are commonly aware of their department goals, as well as

Company objectives. Ossur as a company is goal driven, and ambitious employees excel in such an environment. There is no doubt that a clear vision and clear objectives are a vital part of Ossur's success.

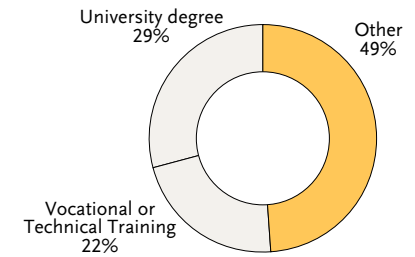
Ossur strives to offer an attractive work environment where future and current employees experience professional working methods. One of Ossur's strongest weapons in attracting potential employees are employees who are proud of their work and talk enthusiastically about the Company. In the 2008 workplace audit the Company scored 4.47 out of 5 to the question: "I am proud to work for Ossur."

Ossur employees have maintained high job satisfaction despite the Company's growth over the past nine years. Employees are proud of the fact that Ossur's products and services help people live a better life.

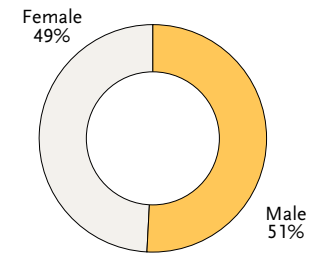
HEADCOUNT 2008



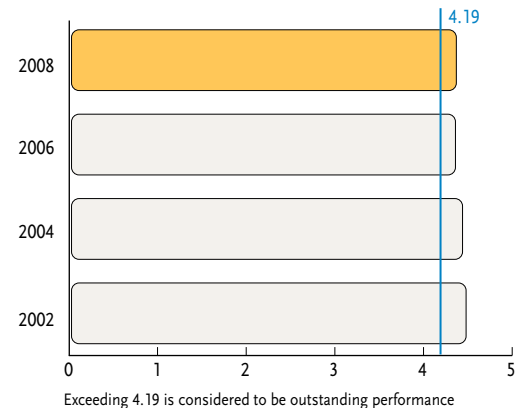
EDUCATION/QUALIFICATION



GENDER RATIO



OVERALL, I AM SATISFIED WITH MY JOB AT OSSUR





OSSUR'S GOAL IS TO BE ACCOUNTABLE FOR ITS IMPACT ON SOCIETY AND THE ENVIRONMENT.

CORPORATE SOCIAL RESPONSIBILITY

Ossur's most important contribution to a better society is part of the Company's mission to improve people's mobility. Ossur products have helped numerous people live a life without limitation, unconstrained and not reducing their opportunities due to mobility restraints. Ossur aspires to contribute to a better society and to minimize its impact on the environment. In order to understand what Corporate Social Responsibility (CSR) means to Ossur, seven categories have been identified to guide the Company. This classification is based on a draft of an ISO standard, which is currently being developed for CSR.

Ossur's values (Honesty, Frugality, and Courage) are a strong foundation for the Company's corporate culture. The values are guidelines for what is expected of employees. They are considered when hiring, enabling Ossur to build a company with employees who are responsible citizens and strong representatives of Ossur. They have been upheld within the Company since foundation. Honesty underpins the socially responsible focus within the Company.

Through a combination of community support, educational programs and the dedication to do good towards others, Ossur ensures that its efforts towards community responsibility have a positive impact.

Ossur realizes that enhancing Social Responsibility within the Company requires patience and long-term vision, and that the ideas behind CSR change over time and differ between locations. This means that matters related to Social Responsibility need to be under constant consideration.

Ossur has always strived to be responsible for its actions and activities. In May 2008, Ossur was one of the founders of "Ethikos," a center for socially responsible companies in Iceland. Since then, Ossur has increased its focus on CSR projects and has now evaluated the status of CSR within the different departments of the Company. Based on the categories illustrated on page 31 the status and scope was evaluated. Following the evaluation, Ossur decided to take actions to further strengthen CSR within the Company, and certain projects have been initiated. One of the most important projects in 2009 will be an increased focus on environmental issues.

CODE OF CONDUCT

Ossur has always placed a great emphasis on fair operating practices. Since 2005, Ossur has outsourced part of its manufacturing to Asia. Ossur and its preferred manufacturers are instructed to follow a specific Code of Con-

duct. They have signed to honor and respect the specific standard of conduct, set forth below:

CHILD LABOR

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

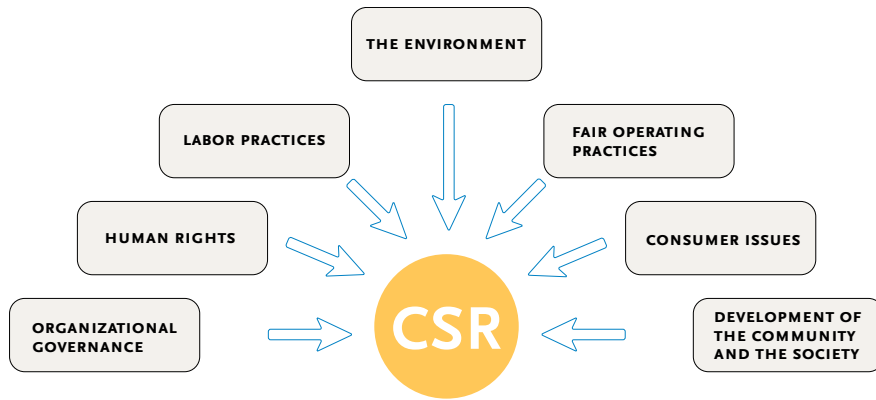
Certifies that it pays at least the minimum total compensation required by the locals, including all mandated wages, allowances and benefits

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 FOCUSES ON THESE SEVEN CATEGORIES IN IMPLEMENTATION OF CSR



ORGANIZATIONAL GOVERNANCE

Social responsibility involves principal behavior, that is behavior based on standards, guidelines or rules of conduct. The Company should disclose in a clear, balanced and truthful manner and to a reasonable and sufficient degree, the policies, decisions and activities for which it is responsible.

HUMAN RIGHTS

The human rights obligations apply: in the workplace, such as provision of safe and healthy working conditions, freedom of association, and non-discrimination, outside the workplace, such as respect for standards on use of force in relation to individuals and groups; in the wider community, such as protection of the livelihood of local communities and contribution to public debate.

LABOR PRACTICES

The labor practices encompass all policies and practices relating to work performed within, by or on behalf of the Company.

THE ENVIRONMENT

The decisions and activities of the Company invariably have an impact on the natural environment. To reduce their environmental impacts, companies need to consider an integrated approach that takes into consideration the wider economic, social and environmental implications of their decisions and activities.

FAIR OPERATING PRACTICES

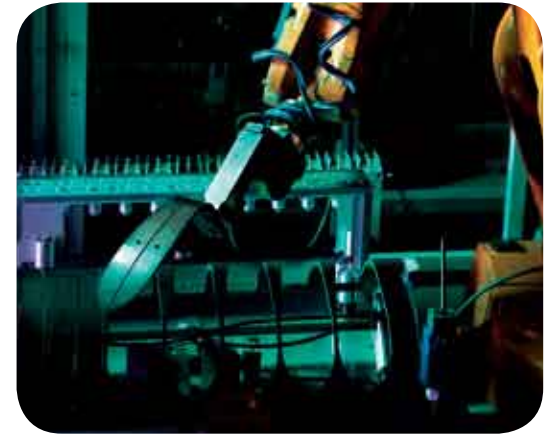
Fair operating practices concern ethical conduct in the Company's dealings with other nations. This includes relationships between companies and government agencies, as well as between companies and their partners, suppliers, contractors, competitors and the associations of which they are a member.

CONSUMER ISSUES

Companies that provide products or services to consumers have responsibilities to those consumers. These include use of fair, transparent and helpful marketing, information and contractual processes. They also involve minimizing risks from the use of the products or services through design, information provision, support services and recall procedures.

SOCIAL AND ECONOMIC DEVELOPMENT OF THE COMMUNITY

Need for contributions to social and economic development in order to reduce poverty and improve poor social conditions is universally accepted. The critical need to address issues of social and economic developments is reflected in the UN Millenium declaration.



CORPORATE GOVERNANCE

In line with the Company's core values of honesty and courage, Ossur focuses on good corporate governance and the benefits they provide. The framework for the Company's corporate governance practices is described below. It is prescribed with 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 NASDAQ OMX 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 a lawful shareholders' meeting. At a shareholders meeting, each share carries one vote and decisions are taken by majority vote unless otherwise provided for in Statutory Law or the Articles of Association. In recent years, the Annual General Meeting has been held in February.

BOARD OF DIRECTORS

Ossur's Board of Directors is the supreme authority in the affairs of the Company during the period between shareholder's meetings. The Board is responsible for the Company's organization and ensuring the proper conduct of its operations at all times. The Board shall decide all matters regarded as extraordinary or of major consequence. The Board shall establish goals for the Company and formulate the policy and strategy required to achieve these goals. The Board shall also monitor whether the CEO prepares and carries out a business strategy consistent with set goals.

The Board is composed of four to seven members, currently five, each elected at the Annual General Meeting for a term of one year. Members of the Board shall elect a chairman and vice-chairman from their own ranks.

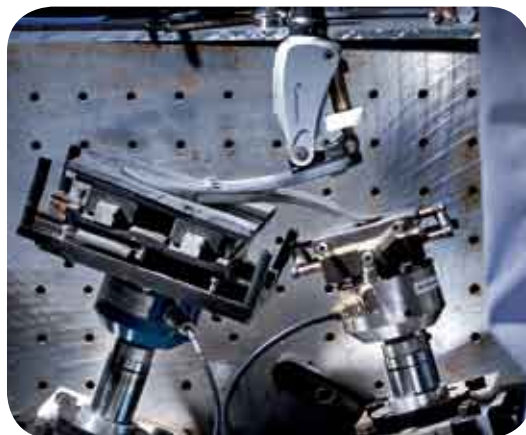
A quorum is reached when a majority of Board Members is present. Important decisions, however, may not be taken unless all Members of the Board have had an

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

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

The CEO shall attend Board Meetings and shall have the right to speak and submit proposals, unless otherwise decided by the Board in individual cases. The CEO shall normally act as Chairman in the Company's subsidiaries.

The Board operates in accordance with the Rules of Procedure of the Board, which are revised annually.



CEO

The Board shall appoint a chief executive officer (CEO) to manage the Company's daily operation. The CEO shall ensure that the accounts of the Company conform to the law and accepted practices, and that the disposal of Company property is secure. The CEO shall, at Board Meetings, submit a report outlining in broad terms the Company's most significant activities.

AUDITORS AND ACCOUNTING

An auditing firm shall be elected at the Annual General Meeting for a term of one year. The auditors are not allowed to own shares in the Company. The auditor shall examine the Company's annual accounts in accordance with international standards on auditing, and shall, for this purpose, inspect account records and other material relating to the operation and financial position of the Company. The auditors shall at all times have access to all of the Company's books and documents.

The elected chartered accountant of Ossur hf. is Deloitte hf., national ID 521098-2449, address: Smáratorg 3, 201 Kópavogur. Auditors on their behalf are Sigurður Páll Hauksson, CPA, born in 1968, and Þorsteinn Pétur Guðjónsson, CPA, born in 1976. Deloitte hf. has been Ossur's auditor since the Company's founding in 1971. Mr. Hauksson has acted on its behalf since September 2006 and Mr. Guðjónsson since 2008.

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. Sigurborg Arnarsdóttir has been the Company's Compliance Officer since 2002.

The Company has specified rules on the handling of inside information and insider trading. These rules state, among other things, that a Primary Insider may not trade in the securities of the Company from the end of a financial period until financial reports are disclosed, regardless of whether the Primary Insider possesses inside information or not. However, such a period shall not be longer than four weeks.

GUIDELINES ON CORPORATE GOVERNANCE

Ossur is listed on the NASDAQ OMX in Reykjavik, and therefore takes into consideration the Guidelines on Corporate Governance for Icelandic limited-liability companies, and explains any points of divergence and the ground for such (comply or explain). The Guidelines were compiled by the Icelandic Chamber of Commerce, NASDAQ OMX in Reykjavik and the Confederation of Icelandic Employers.



The Company's position on the core list of top practices and guidelines, which are reviewed on a regular basis:

- 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 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 a 10% share in the Company.

A brief summary on the background of Ossur's members of the Board of Directors is on page 39.

- 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 things, the allocation of responsibility within the Board, representation of the Board, agenda and procedures of board meetings, obligation of confidentiality, instances of disqualifications and signature of the Company's statements. The rules are continuously reviewed and upgraded when necessary.

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

An agenda for board meetings is sent to all Members of the Board prior to any board meeting. The CEO attends all such meetings and provides the Board with information outlining the Company's activities in broad terms.

- The Board should regularly assess 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. Also, it is preferred that at least two of the Directors be independent of major



Company shareholders. Preferably, at least two of the Directors should be independent of major Company shareholders.

As of the date of this report, three Members of the Board, Kristján Ragnarsson, Svafa Grönfeldt and Össur 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.

- 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 2008.

- 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.

The Board of Directors has established a management remuneration sub-committee of the Board. Members of the sub-committee are Niels Jacobsen, Thordur Magnússon and Svafa Grönfeldt.

In light of the concentrated number of board seats, and the balanced and relevant expertise and experience of the current Members of the Board, other sub-commit-

tees have not been established. This decision is subject to continuous evaluation.

THE REMUNERATION POLICY OF OSSUR HF.

The Board of Directors of Ossur hf. shall approve the Company's general remuneration policy concerning wages and other payments to the CEO, other senior Officers of the Company as well as its Directors. The policy describes whether and to what extent the Company compensates these parties in addition to basic wage. The remuneration policy shall be approved by the Company's shareholders during the Annual General Meeting. Such an approval is binding for the Board of Directors to the extent it relates to compensation linked to the development of Company shares. The remuneration policy is a guideline for the Company's Board of Directors.

The Company's remuneration policy is published in its entirety on page 36.

During the Annual General Meeting, the Company's Board of Directors shall give an account of the remuneration of the Company's Officers and Directors, and the estimated costs on account of the right of share purchase options, and explain the implementation of a previously approved remuneration policy. If the Company's Board

of Directors has deviated from the remuneration policy it shall be substantiated in the Minutes of the Company's Board of Directors.

THE REMUNERATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The remuneration of the Board of Directors is decided at the Annual General meeting for the previous term. The

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

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

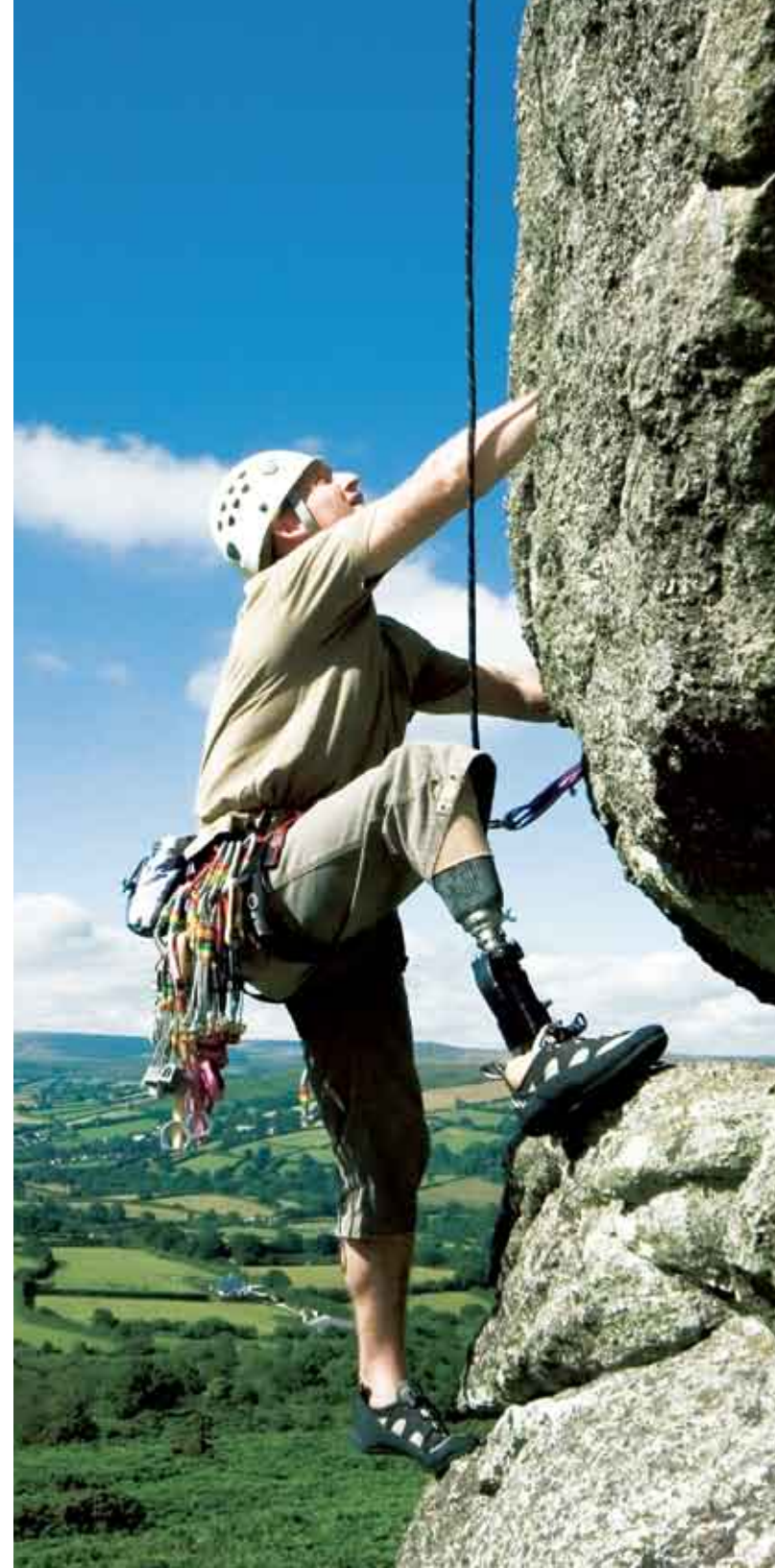
Board of Directors	Position	Remuneration USD	Number of shares represented	Share options	Financially linked parties	
Niels Jacobsen	Chairman of the Board	50,000	145,252,402	0	0	Board member on behalf of William Demant Invest A/S
Þórður Magnússon	Vice Chairman of the Board	30,000	84,440,215	0	8,456	Board member on behalf of Eyrir Invest
Óssur Kristinsson	Board Member	61,000	37,526,769	0	0	Board member on behalf of Mallard Holding
Kristján Tómas Ragnarsson	Board Member	20,000	619,539	0	4,250	
Svafa Grönfeldt	Board Member	20,000	0	0	0	
CEO and Executive Management						
Jón Sigurðsson	CEO	754,000	24,458,841	1,250,000	3,234	Represents Vik Investment Holding
Hilmar B. Janusson	VP of Research & Development	387,000	3,660,347	308,000	0	Represents Mycenaean Holding
Hjörleifur Pálsson	CFO	439,000	700,000	308,000	0	Privately held shares
Egill Jónsson	VP of Manufacturing and Operations	333,000	18,499	308,000	4,250	Privately held shares
Mahesh Mansukani	President of Ossur Americas	250,000	0	500,000	0	
Eyþór Bender	Former President of Ossur Americas	753,000	0	0	0	
Ólafur Gylfason	Managing Director of Ossur EMEA	317,000	476,368	308,000	0	Privately held shares

THE REMUNERATION POLICY OF OSSUR HF.

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

- It is the policy and priority of Ossur hf. to attract and retain exceptional employees. In order to achieve this, the Company must have in place a competitive compensation structure in each of its operations. This remuneration policy is designed and implemented to ensure the alignment of interest of the long-term shareholders of Ossur hf. and its employees and other stakeholders, in a principled, simple, and transparent way.
- In addition to base salary, Ossur hf. (the “Company”), provides employees with necessary working equipment. The Company compensates managers and employees with other payments, reimbursements and other rewards.
- Performance-linked payments and benefits. The Company can pay bonuses that reflect individual contributions to the Company’s projects, specific divisions or the Company as a whole. Managers will also be provided with vehicles only in exceptional cases.
- With share options. The Board of Directors of Ossur hf. (the “Board”) can offer employees share options in the Company. The strike price of such share options agreements shall never be below the market prices of the Company’s shares at the time of issuing. All share option agreements offered to the managers of the Company will be laid before a shareholders’ meeting for approval. Ossur’s annual report always discloses the share options held by managers and members of the Board. The Board can in exceptional circumstances provide the Company’s managers with sales rights on their options of shares in the Company.
- Ossur hf. does not provide managers or other employees with loans or guarantees in relation to purchase of shares in the Company, as authorized in the 2nd paragraph of Article 104 in the Act respecting Public Limited Companies, or for other purposes, except in exceptional circumstances. Such instances are always subject to the approval of the Board.
- Ossur hf. pays the employer’s share to pension funds for employees in accordance with applicable laws and general labor contracts. The Company does not enter into special pension fund agreements, and no such agreements exist. The Company, in exceptional circumstances, pays an additional pension contribution for managers, never exceeding 20% of their annual salary.
- Ossur hf. does not enter into special retirement agreements with managers and other employees, but prefers to have mutual termination clauses apply as practiced on the labor market. Ossur’s employees have a three-months notice clause in accordance with employment agreements or general union labor requirements. The Board reserves the right to approve, in specific instances, a termination notice up to 12 [twelve] months, particularly in the case of managers located abroad. Currently, some managers have a termination clause of up to 12 [twelve] months.
- The remuneration of the Board of Directors is approved, with forward effect for one year at a time, by the Company’s Annual General Meeting, in accordance with Company Law.

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



EXECUTIVE MANAGEMENT AND CEO



Mr. Janusson, Mr. Mansukhani, Mr. Sigurdsson, President & CEO, Mr. Gylfason, Mr. Jonsson, Mr. Palsson.

EGILL JONSSON, 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).

HILMAR BRAGI JANUSSON, 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 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.

MAHESH MANSUKHANI, President of Ossur Americas, joined Ossur in 2008. Prior to joining the company, he was a Director at AlixPartners (2008). From 2005-2007, he was the Global Business Director of DuPont Tyvek® and the Global Director of DuPont Marketing and Sales Effectiveness from 2002-2005. Prior to this, Mahesh held roles in Management Consulting and Finance. Mr. Mansukhani has an M.A. degree in Multi-national Accounting and Financial Management from Reading University in England, M.Phil. Finance degree from Warwick Business School in England, and an MBA from Yale University in the United States.

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

HJORLEIFUR PALSSON, 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.

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

BOARD OF DIRECTORS

OSSUR KRISTINSSON 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.

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

KRISTJAN T. RAGNARSSON 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. He joined the Board of Directors of Ossur in 2005. He is President and CEO of William Demant Holding A/S, a Danish industrial group in the hearing healthcare field. Previous positions include President of Aktieselskabet Orion and Vice President, Corporate Affairs for both Atlas Danmark A/S and Thrige-Titan A/S. Mr Jacobsen is also a board member of numerous Danish companies and organizations, including LEGO A/S, KIRKBI A/S, A.P. Møller - Mærsk A/S and Directorships in a number of wholly and partly owned companies in the William Demant Group, including Oticon A/S, William Demant Invest A/S, Sennheiser Communications A/S, HIMPP A/S, HIMSA A/S and HIMSA II A/S. He is Chairman of the board of the Hearing Instrument Manufacturers Patent Partnership A/S (HIMPP) 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.

SVAFA GRONFELDT became a member of the Board in 2008. She is the President of Reykjavik University. She worked at Actavis Group 2004-2007, the last two years as Deputy to the CEO. Svava was Assistant Professor in the Faculty of Economics and Business Administration at the University of Iceland 1997-2000 and Managing Director and Managing Partner of IMG Gallup/Deloitte 1995-2004. Svava holds a doctorate in Industrial Relations from London School of Economics since 2000.



Mr. Kristinsson, Mr. Magnusson, Mr. Ragnarsson, [Mr. Jacobsen, Chairman Of The Board](#), Ms. Gronfeldt.



RISK FACTORS

An investment in the Ossur's shares involves a high degree of risk. Ossur's business, financial condition and results of operation going forward rests upon certain assumptions and could be seriously harmed by any of the occurrences described below. No assurance can be given that Company's assumptions will prove to be correct. Furthermore, additional risks and uncertainties not presently known to Ossur, or that it currently deems immaterial, may also adversely affect its business operations and financial results. The risk factors discussed below are not listed in any order of priority.

RISKS RELATING TO OSSUR'S BUSINESS

[Ossur's assumptions regarding market trends may prove incorrect.](#)

Assumptions regarding demographic trends are important to Ossur. Ossur expects, for example, that the population of elderly will continue to grow, an increasing proportion of this population will live an active lifestyle and that the number of people with diabetes will increase in the future. No assurance can be given that these assumptions will prove to be correct or that these demographic trends will result in demand for the Company's products.

[Ossur may be adversely affected by developments in medicine.](#)

Ossur's main products are intended to improve the quality of life for individuals suffering the effects of accidents or illnesses that are currently incurable. No assurance can be given that Ossur's target market will not be mate-

rially diminished by advances in medical science, or that Ossur will be able to generate comparable revenue from alternative market segments.

[Ossur may be unable to develop or secure the use of new technologies.](#)

Ossur operates in markets that are characterized by rapid technological change, driven by extensive research that is carried out by market participants. The development by any of Ossur's competitors of substitute products that better satisfy market demands could have a material adverse effect on Ossur's business and results of operations. A failure by Ossur to develop new products or enhance existing products could have a material adverse effect on the Company.

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

A significant proportion of Ossur's growth in recent years has been driven by acquisitions. No assurance can be given that Ossur will be successful in identifying appropriate acquisition candidates in the key markets in which Ossur operates or desires to operate. Ossur may also be unable to complete acquisitions of targets in a timely manner or on acceptable terms. Acquisitions involve a number of other risks, including, among others, diversion of management resources and management focus, difficulties integrating the acquired business with Ossur's existing business, unexpected or high integration costs, a failure to retain key employees of the acquired business, a failure to attain the synergies expected from completing the acquisition.

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

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

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

Third-party agents and distributors sell some of Ossur's products. The Company's largest wholesale customer accounted for 7% of the Company's net revenues for the year ended December 31 2008. Other distributors accounted for less than 2% of net revenues for the same period. These agents and distributors are not employees of Ossur, and Ossur may be unable to influence their actions and performance.

Ossur is subject to risks related to its international operations.

Headquartered in Reykjavik, Iceland, Ossur has significant operations in the United States and Europe and has recently opened an office in Shanghai, China. Ossur has also outsourced part of its production to Asia, mainly China and Taiwan. Ossur's business and results of operations are therefore subject to various risks inherent to international operations. Such risks include, among others recessionary trends, inflation or instability of financial markets, exposure to different legal standards and enforcement mechanisms, trade barriers, rules regarding the origins of products, labor unrest, foreign exchange controls and restrictions on repatriation of funds and political and social instability.

Ossur is vulnerable to disruptions to its production facilities.

Ossur's production facilities may be adversely affected by man-made or natural disasters. The Company maintains insurance to cover such losses relating to man-made and natural disasters. No assurance can be given, however, that insurance payments would be sufficient to

cover the full loss resulting from a disruption in Ossur's production or that Ossur's insurance would cover the event that causes such a disruption.

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

Ossur's functional and reporting currency is the US dollar. In addition, a large portion of the Company's indebtedness is denominated in US dollars as are the majority of its revenues and expenses. However, a significant portion of the Company's revenues and expenses are denominated in euro. Because there is a currency mismatch between Ossur's revenues and costs, fluctuations in exchange rates, mainly between the US dollar and the euro and Icelandic krona, could adversely affect Ossur's financial condition and results of operations.

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

Ossur has experienced, and continues to experience, significant organic growth and growth through acquisitions which has placed, and will continue to place, substantial demands on the Company's management, operations and financial controls and processes. Ossur must continue to improve its operations, controls and reporting systems and procedures to meet these substantial and increasing demands. If such improvements are not implemented successfully, Ossur's ability to manage its growth will be impaired.



Ossur's aim is to maintain and increase its position as a market leader in non-invasive orthopaedics

Ossur's aim is to play a leading role in the likely continuance of consolidation in its markets. Ossur's success thereof is subject to multiple factors both internal and external. As for external factors the risk remains that competitors accelerate the consolidation of the market, and strengthen their own position, at the expense of other participants like Ossur.

Ossur is subject to risks relating to the protection of intellectual property rights.

Ossur relies on a combination of patents, trademarks, trade secrets and non-disclosure and non-competition agreements to protect its proprietary intellectual property, and will continue to do so. While Ossur intends to defend against any threats to its intellectual property, there can be no assurance that these patents, trademarks, trade secrets or other agreements will adequately protect Ossur's intellectual property.

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

Ossur finances its subsidiaries and acquisitions internally through its Swiss financial branch, established in 2002. The purpose of the branch is to minimize corporate taxation by taking advantage of the favorable taxation of Swiss financial branches and the favorable double taxation agreement between Switzerland and Iceland, the US, Netherlands and the UK. The financing structure results in tax deductions in countries where tax is higher than that imposed on the financing branch. Ossur has obtained binding opinions on the legality of the financing structure from the relevant local tax authorities. No assurance can be given that the relevant laws and regulations will remain unchanged.

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

Ossur is responsible for the safety and effectiveness of its products. Although Ossur engages in internal quality control and product testing procedures, Ossur cannot guarantee that it will not be found liable for a product liability claim in the future or that insurance coverage will be sufficient or continue to be available on commercially reasonable terms.

Ossur is dependent on certain raw materials.

Ossur's products require silicone and carbon, metals and other raw materials. Such raw materials may not always be available on favorable terms, or at all.

RISKS RELATED TO GOVERNMENT HEALTHCARE REGULATION

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

Most of Ossur's customers rely on third-party payers, including both government healthcare programs and private health insurance plans, to cover and reimburse some or all of the costs associated with Ossur's products. All third-party payers, whether governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. These cost-control methods also potentially limit the coverage of and the amount of payment for which governmental and third-party payers may be willing to pay for medical products. As such, the continuing efforts of both governmental and private payers of healthcare costs to contain or reduce costs could lead to patients being unable to obtain approval for payment from these third-party payers. If that were to occur, sales of Ossur's products may decline significant-

ly and its customers may reduce or eliminate purchases of its products. Further, future legislative or regulatory initiatives directed at reducing costs could be introduced at either the federal or state level. The Company cannot predict the impact on its business of the competitive acquisition program or future legislative or regulatory initiatives.

[Ossur's failure to comply with regulatory requirements or receive regulatory clearance or approval for its products or operations, including healthcare fraud and abuse laws and regulations, would adversely affect Ossur's revenues and potential for future growth.](#)

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



TOTAL NUMBER OF SHARES:	423,000,000
TOTAL NUMBER OF SHAREHOLDERS:	2,586
MARKET VALUE AT YEAREND 2008:	\$ 349 MILLION

OSSUR STOCK

Ossur has been listed on the Nasdaq/OMX Iceland Stock Exchange since 1999, stock symbol HL:OSSR. Ossur has been included in the OMXI-15 Index, comprised of the 15 most traded companies. However, due to changes at the Nasdaq/OMX Iceland Stock Exchange at the beginning of 2009, the Index is now the OMXI – 6, consisting of the six most traded companies. The price of Ossur stock increased by 1.3% in 2008, from ISK 98.5 at yearend 2007 to ISK 99.8 at yearend 2008. The OMXI-15 index decreased by 94.0% in 2008.

The total volume of trading in Ossur stock amounted to USD 75 million in 2008, corresponding to a turnover rate of 23%. The average spread of Ossur stock was 0.75%. For 2008, the lowest trading price was ISK 80 and the highest was ISK 113 and the average trading price was 94 per share.

The transformation of the OMXI-15 Index to the OMXI-6 was due to the extraordinary economic conditions the Icelandic market faced this past year, which included the

State assuming control of Iceland's three largest banks over a two week period, by mid October. Following government intervention, the Icelandic stock market closed for three days and when it reopened the Index had fallen by 76%, from 3006 to 720 points. In 2008, 11 companies were delisted, including the three major banks, which accounted for around 60% of the ICEX 15 index in the beginning of 2008.

NASDAQ/OMX ICELAND

At the end of February 2008, the merging of the Nasdaq stock market with the OMX stock market was com-

pleted, resulting in the Nasdaq/OMX. Since the Iceland Stock Exchange merged into the OMX Nordic Exchange, Ossur's visibility has increased, and the Company is now included in the Nasdaq/OMX indices.

Ossur is also in the healthcare index, categorized as a Mid-Cap-sized company. Nasdaq/OMX has announced that because of Iceland's extraordinary market conditions, the January 2009 adjustment of the market capitalization segmentation has been cancelled. As a result, companies listed on NASDAQ/OMX Nordic exchanges will for the first half of 2009 remain under their current heading of Large, Mid or Small Cap.

LISTED: 1999
 STOCK EXCHANGE: NASDAQ/OMX
 STOCK SYMBOL: OSSR
 BLOOMBERG: OSS.IR
 REUTERS: OSSR.IC

PERFORMANCE 2008

OSSUR:	1.3%
OMXI-15	-94.3%
OMXC-20	-44,1%
OMX NORDIC MID-CAP	-56.4%
OMX NORDIC HEALTHCARE PI	-27.2%



OSSUR STOCKS

LARGEST SHAREHOLDERS 31.12.2008

Name		Total Capital	%
William Demant Invest A/S	Investment Fund	145,252,402	34.34
Eyrir Invest ehf	Investment Company	84,440,215	19.96
Mallard Holding S.a.r.L.	Founder & family	37,526,769	8.87
Vik Investment Holding S.a.r.L.	President & CEO	24,446,907	5.78
ATP-Arbejdmarkedets	Pension Fund	14,660,194	3.47
Gildi - lífeyrissjóður	Pension Fund	13,224,891	3.13
Lífeyrissjóðir Bankastræti 7	Pension Fund	9,500,000	2.25
Lífeyrissjóður verslunarmanna	Pension Fund	7,870,283	1.86
Sameinaði lífeyrissjóðurinn	Pension Fund	7,764,176	1.84
Arion safnreikningur	Custody Bank	5,432,516	1.28
Fjárfestingasjóður Ís-15	Investment Fund	4,646,886	1.10
BYR sparissjóður	Bank	4,414,864	1.04
Stafir lífeyrissjóður	Pension Fund	3,842,469	0.91
Mycenaean Holding S.a.r.L.	VP of R&D	3,560,347	0.84
Nýi Landsbanki Íslands hf	Bank	3,317,580	0.78
Fidelity Funds	Investment Fund	2,684,884	0.63
Nýi Kaupþing banki hf	Bank	2,272,223	0.54
Áning ehf	Privat Investor	2,159,678	0.51
Glitnir Sjóðir hf	Bank	1,947,614	0.46
Söfnunarsjóður lífeyrisréttinda	Pension Fund	1,796,669	0.42
Top 20 shareholders		380,761,567	90.01

SHAREHOLDERS

The number of shareholders was 2,586 by yearend. The largest single shareholder was William Demant Invest A/S, holding a 34.34% share. The company is wholly owned by William Demant 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, listed on the Nasdaq/OMX Copenhagen Stock Exchange. Niels Jacobsen, the President and CEO of William Demant Holding A/S, is Ossur's Chairman of the Board.

The second largest shareholder was Eyrir Invest ehf., which holds a 19.96% stake in the Company. Eyrir is an active investor in companies that are potential industry leaders within various market segments. The principal shareholders of Eyrir Invest are Arni Oddur Thordarson, the CEO of Eyrir Invest, and Thordur Magnusson, the Chairman of the Board of Eyrir Invest. Thordur Magnusson is Ossur's Vice Chairman of the Board of Directors.

The third largest shareholder was Mallard Holding, which is owned by the founder of the company, Össur Kristinsson (an Ossur board member), and his family. Mallard Holding's shares total 8.87%.

The Company holds 17,992 treasury shares, the same number held at yearend 2007. No treasury shares were traded in 2008.

DIVIDEND POLICY

No dividends have been paid to Ossur shareholders. In the event that an Annual General Meeting (AGM) 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 recent Ossur prospectus, the Company does not plan to pay dividends to shareholders in the near future; instead, earnings will be re-invested in the Company to help it grow for as long as the return on investment in Ossur's business sectors exceeds the returns offered in other sectors at a same level of risk.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting is normally held in February. According to Ossur's Articles of Association, the meeting is convened using the same procedure as other shareholders meetings with at least two weeks' notice. The results of the AGM are sent to the Stock Exchange immediately following the meeting and are made available on the Company's website over the course of the next few business days.

At the 2008 AGM, shareholders approved a revision of the Company's Articles of Association. The goal was to modernize the Company's Articles and align with wording of the Icelandic Company Act. Key changes included that the Board of Directors was given an authorization to change the share capital currency of the Company from ISK and the number of board seats changed from five to the range of four-to-seven. The Board was also given an authorization to have shareholders' meetings, fully or partly, internet based. In addition, new wording was added to reflect that the Company's shares are issued electronically.

The 2010 Annual General Meeting will be held on 19 February 2010.

INVESTOR RELATIONS

Placing emphasis on providing investors, analysts and other stakeholders with timely and accurate information, Ossur hosts investor meetings, teleconferences and internet presentations following each quarterly report, and other momentous occasions if needed.

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

The cornerstone of Ossur's policy on investor relations is to secure equal access to all information for all the Company's shareholders. With efficient reporting, the Company ensures that all necessary information concerning Ossur's progress is clear and concise, 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.

Preferably twice a year, the CEO, CFO and IR manager travel to London, Copenhagen, NY and, for the first time in 2008, to Switzerland, in order to meet with analysts, investors and other stakeholders. In the past, Ossur has participated in Goldman Sachs European Medtech and Healthcare Services Conference and the Merrill Lynch European Healthcare Conference, both in London. Ossur has also participated in the UBS Global Life Science Conference and CIBC World Markets Annual Healthcare Conference, both held in NY.

Ossur has been awarded the Investor Relations Magazine Nordic award for Best Investor Relations for an Icelandic company four times. The Company has been nominated for the award six times. In addition, CEO Jon Sigurdsson and CFO Hjorleifur Palsson have been awarded Best Support by a CEO & CFO of an Icelandic Company.

CONTACT INVESTOR RELATIONS:

MS. SIGURBORG ARNARSDÓTTIR

IR MANAGER

TEL. +354-515-1339

E-MAIL: SARNARSDOTTIR@OSSUR.COM

SHAREHOLDER INFORMATION ON THE INTERNET

Ossur's website hosts extensive information on the Company. For example, stakeholders can read and subscribe to press releases sent to the Nasdaq/OMX Stock Exchange, monitor the price trends of their shares, utilize interactive analyst tools, read the Company's annual reports and listen to teleconferences with Company management, following conferences. A tool monitoring up-to-date recommendations by analysts is the latest addition to the IR website. The website also contains extensive information about Company products and technology.

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

PRESS RELEASES IN 2008

14.11.2008	Market-making for Ossur hf. Shares
28.10.2008	Ossur hf. - Third Quarter Report 2008
22.10.2008	Ossur - Investor meeting
11.10.2008	Ossur Outlook - Q3 2008
29.7.2008	Ossur hf. - Second Quarter Report 2008
22.7.2008	Ossur - Investor meeting
25.6.2008	Ossur - Management changes at Ossur Americas
29.4.2008	Ossur hf. - First Quarter Report 2008
25.4.2008	Ossur - Investor meeting
23.4.2008	Ossur hf. signs a Market Making Agreement with Saga Capital
31.3.2008	Ossur hf. divests its Advanced Wound Care product line
22.2.2008	Updated version of the Articles of Association of Ossur hf.
22.2.2008	Results of Ossur's Annual General Meeting, 22 February 2008
22.2.2008	Annual Report for 2007
18.2.2008	Correction: Ossur hf. AGM 2008: candidates for election of the Board of Directors
18.2.2008	Ossur hf. AGM 2008: candidates for election of the Board of Directors
15.2.2008	Ossur hf. Annual General Meeting, agenda and proposals
8.2.2008	Ossur's 2008 Annual General Meeting
6.2.2008	Ossur Fourth Quarter and Annual Report 2007
31.1.2008	Ossur hf. Investor Presentations - Annual Results 2007

PUBLICATION SCHEDULE FOR REPORTS

27 April 2009	1st Quarter
27 July 2009	2nd Quarter
26 October 2009	3rd Quarter
3 February 2010	4th Quarter
19 February 2010	Annual General Meeting

OSSUR HF. ANALYSTS

EUROPE

ABG Sundal Collier
Morten Larsen
Tel: +46(8)566 28 693
e-mail: morten.larsen@abgsc.se

ICELAND

IFS Ráðgjöf
Haraldur Yngvi Pétursson
Tel.+354-533-4603
e-mail: haraldur@ifs.is

Nyi Kaupþing Banki
Kristófer Þór Pálsson
Tel.+354-444-7336
e-mail: kristofer.palsson@kaupthing.com





PERFORMANCE OVERVIEW 2008

The year was characterized by internal focus. In 2008, a focus on processes and profitability was one of the main tasks. Twenty products were discontinued and profits increased. Total sales amounted to USD 350 million, representing 4% growth. No acquisitions were made in 2008. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to USD 79.4 million or 23% of sales, and increased by 15.0 million or 23% from 2007.

MARKETS AND GROWTH

Growth in prosthetics sales continued, and was 9%, confirming Ossur's strong position in this market segment and the Company's technical leadership. Sales in bracing and supports increased by 1% and Ossur saw a 5% increase in sales of compression therapy products.

In March Ossur divested its Advanced Wound Care product line to BSN medical GmbH. In August Ossur delivered the production line and inventories in accordance with the contract and received additional milestone payments. All intellectual property litigation related to the product line has been settled. The divestment affects Ossur's income statements in 2008 by USD 8.4 million, which is included in other income.

USD '000	2008	% OF SALES	GROWTH USD	GROWTH LCY
Americas	163,204	46%	1%	1%
EMEA	173,858	50%	7%	2%
Asia	12,955	4%	25%	24%
Total	350,017	100%	4%	2%

AMERICAS

Sales in Ossur Americas grew by 1%, but sales of bracing and supports products declined by 1%, offsetting the overall sales growth. Sales of bracing and supports products in this market have been challenging, and changes in the sales channel have not returned the expected results. In 2009, the sales channel structure will be simplified and made more efficient. Management changes in 2008 and tactical sales management are expected to have a positive impact on the results of 2009.

Sales in the Americas accounted for 46% of total sales, compared to 48% in 2007.

EMEA

Growth in EMEA was 7% and 2% measured in local currency. In 2008, exchange rate developments had a significant impact on the results of EMEA. All units within

EMEA, excluding Gibaud, were on target, measured in the respective currencies. In 2008, EMEA increased its focus on direct sales in the bracing and supports segment instead of relying on distributors. This had a temporary negative effect on the overall sales growth, but increases profitability. EMEA sales growth excluding the distribution channel and Gibaud was 7%, measured in local currency. The transfer to direct sales will reduce channel conflict and is expected to contribute to a faster growth in 2009.

Gibaud's profitability is on track. When Gibaud was acquired it was announced that the Company would be operated as a standalone unit and not fully integrated into Ossur for the first 18-24 months. The first phase of the integration took place the past two years where the focus has been on increasing the profitability and stabilizing the business. Following this two-year period the business has been stabilized and the management is confident that a groundwork for future growth has been set.

Sales in EMEA accounted for 50% of total sales, compared to 49% last year.

ASIA

Asia continues to show excellent growth. In 2008, Asia grew 25% and 24% measured in local currency. Ossur Asia has shown a steady and solid performance since the unit was established in 2006.

Sales in Asia accounted for 4% of sales, compared to 3% in 2007.

SALES

The total sales in 2008 amounted to USD 350.0 million, representing a 4% growth, compared to 2007. Exchange rate trends had a positive impact on sales amounting to USD 6.5 million. In 2008, strategic focus was on profitability and product rationalization of the Company's bracing and supports product line. Sales of bracing and supports in the Americas were below target throughout the year, and temporary disturbance of the bracing and supports sales in EMEA, due to Gibaud, and a shift of focus from distributors to direct sales, which affected the overall sales performance in 2008.

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

GROSS PROFIT

The gross profit was USD 206.4 million compared to USD 188.9 million in 2007, representing an increase of 9%. Net positive effects of exchange rate developments amount to USD 9.0 million. Net of exchange rate effects, the gross profit margin improves by 1 percentage point. Contributing to this increase is increased efficiency, changed product mix and benefits from outsourcing of projects.

OTHER INCOME

Other income amounted to USD 9.4 million. One-time other income includes USD 8.4 million related to the divestment of the advanced wound care product line earlier this year. One time income in 2007 includes proceeds from the sale of the option to buy the Company's facilities in Iceland and a legal settlement, USD 10.9 million.

OPERATING EXPENSES

Amortization of intangible assets relating to acquisitions amounted to USD 14.8 million, compared to USD 15.6 million in 2007. The amortization following acquisitions in the past is in accordance with accounting standards, affecting the income statements although the underlying intangible assets may not be decreasing in value. Amortization of intangible assets is expected to start to decline in 2009.

ALLOCATION OF AMORTIZATION OF INTANGIBLE ASSETS TO EXPENSE ITEMS	2008 USD '000	% of sales	2007 USD '000	% of sales
Cost of goods sold	70	0.0%	456	0.1%
Sales and marketing expenses	7,778	2.2%	7,258	2.2%
Research & development expenses	4,091	1.2%	4,418	1.3%
General & administrative expenses	2,816	0.8%	3,515	1.0%
Effect on profit from operations	14,755	4.2%	15,647	4.6%

Sales and marketing expenses were 25.7% of sales, compared to 25.4% in 2007. Research and development expenses, amounted to 6.0% of sales, compared to 5.9% in 2007. All research and development costs continue to be expensed. General and administrative expenses amount to 14.0% of sales compared to 16.7% in 2007. Operating expenses as a ratio to sales were 46%, compared to 48% in 2007. Net of exchange rate differences

and unusual expenses in 2007, operating expenses as a ratio to sales remain unchanged between the years.

FINANCIAL ITEMS

The net financial expenses in 2008 amounted to USD 17.7 million compared to USD 31.7 million in 2007, decreasing by USD 13.9 million or 44%. In October 2007 the share capital was increased through a private placement of new shares. The proceeds from the offering were used to pay down a bridge loan facility, decreasing the leverage of the Company. Exchange rate developments of the EUR against the USD also contributed to the decrease. Net unfavorable exchange rate difference decreased from USD 16.5 million in 2007 to USD 0.3 million in 2008. A gain from forward currency contracts amounted to USD 0.6 million in 2008 compared to USD 8.7 million in 2007.

INCOME TAX

Income tax was USD 9.7 million, corresponding to a 25% effective tax rate, compared to 6% in 2007. The income tax in 2007 was unusually low due to significant deductions relating to a net loss in the Americas as well as deductions relating to the internal financing structure of the Company. Contributing to the increased expensed tax in 2008 is decreased tax rate in Iceland and in Germany which caused a write-down of accumulated tax benefits. The effective tax rate should remain at a similar percentage range for the next year.

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 15%, which is among the most favorable tax terms in the world.

PROFIT FOR THE YEAR

Profit from operations for the year was USD 56.0 million, compared to USD 39.7 million in 2007. The operating profit margin was 16% in 2008, as compared to 12% in 2007, representing an increase of 41%. Net of exchange rate differences and unusual income and expenses, the increase is 15%.

SPLIT BETWEEN CURRENCIES 2008

CURRENCY SPLIT	Income	Cost
USD/CAD	50.8%	42.2%
EUR	33.3%	23.8%
ISK	0.5%	8.9%
Other European currencies	15.4%	26.1%

Net profit amounted to USD 28.5 million compared to USD 7.6 million in 2007.

EBITDA was USD 79.4 million, 23% of sales, compared to USD 64.4 million and 19% of sales in 2007. EBITDA adjusted for one-time income and expenses amounted to USD 72.6 million and 21%, compared to USD 58.4 million and 17% in 2007.

BREAKDOWN OF ONE-TIME INCOME AND EXPENSE ITEMS ADJUSTED FOR IN THE EBITDA:

EBITDA ADJUSTMENTS USD MILLIONS	2008	2007
COGS/ Inventory step up		-1.4
Other income/ divestment WC, Option to buy the HQ, legal settlement	8.4	10.9
Operational exp./Severance payments, litigation expenses, external consultancy	-1.6	-3.6
Total	6.8	5.9

EARNINGS PER SHARE

EARNINGS PER SHARE	2008	2007	Change
EPS diluted (US cents)	6.73	1.94	247%
Cash EPS diluted (US cents)	12.29	8.24	49%

BALANCE SHEETS

The equity ratio at the end of the year was 41% compared to 39% at the end of 2007. The treatment of Ossur's interest rate swap agreement is subject to uncertainty. The net present market value of the agreements was positive by USD 552,000 on 31 December 2007 and negative by USD 9.5 million on 31 December 2008. The decrease in market value net of tax, amounting to USD 8.6 million, is realized as loss through equity in the Company's 2008 financial statements. This significant amount lowers the year-end equity ratio by 1.4 percentage points.

Net interest bearing debt over EBITDA was 2.9x at the end of the year. Ossur's financial strength is healthy and in line with the Company's policy. The decrease of assets is mainly due to changes in the EUR/USD exchange rate.

New Kaupthing Bank has formally agreed to refinance the outstanding amount of the bridge loan facility (EUR 37.4 million at year end) which was undertaken in December 2006 to finance the acquisition of Gibaud. The refinancing secures the Company's long term financing. The new interest rate margins are subject to a ratchet based on the ratio of total debt to EBITDA. The Company estimates that this change will lead to a weighted increase of approximately 1.5% in interest rate margins on long term liabilities in 2009. The refinancing is subject to final documentation.

Ossur is very cash generative and cash at the end of the period amounted to USD 30 million. A revolving credit line facility was drawn to USD 7.6 million, net cash at the end of the period amounted to USD 22.4 million.

CASH FLOW

CASH FLOW (USD '000)	2008	% of Sales	2007	% of sales
Working capital provided by operating activities	58,070	17%	43,991	13%
Net cash provided by operating activities	52,835	15%	45,701	14%

Working capital from operating activities increased by 32% and net cash provided by operating activities increased by 16% between years

CAPITAL EXPENDITURE AND INVESTMENTS

Capital investments amounted to USD 7.8 million or 2.2% of sales, compared to USD 7.1 million or 2.1% of sales in 2007.

Capital investments in 2007 and 2008 have been unusually low following extensive investments in 2004-2006, especially in IT platforms.

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.

A sunset scene over a body of water with a white title bar. The sky is a gradient of orange and yellow, with some clouds. The water is dark and reflects the sky. A line of trees is visible on the horizon. A white title bar is positioned in the upper middle of the image.

OSSUR HF. CONSOLIDATED FINANCIAL STATEMENTS 2008



FINANCIAL RATIOS

CONSOLIDATED STATEMENT			2008	2007	2006	2005	2004
GROWTH	Net sales	USD '000	350,017	335,609	252,133	160,729	124,399
	EBITDA	USD '000	79,440	64,392	39,493	25,832	25,045
	Profit from operations	USD '000	55,958	39,716	19,743	16,525	20,374
	Employees	Number	1,587	1,617	1,190	680	568
	Net income	USD '000	28,488	7,580	4,360	11,688	15,227
	Total assets	USD '000	603,778	635,821	612,752	407,986	108,915
OPERATIONAL PERFORMANCE	Cash provided by operating activities	USD '000	52,835	45,701	15,988	15,481	16,600
	– as ratio to total debt	%	14	11	5	10	30
	– as ratio to net result		1.9	6.0	3.7	1.3	1.1
	Working capital from operating activities	USD '000	58,070	43,991	24,663	18,954	23,095
	– as ratio to long-term debt and Equity	%	15	11	6	8	27
	– as ratio to investm., current maturities, divid.		2.6	1.2	0.1	0.1	0.8
LIQUIDITY AND SOLVENCY	Quick ratio		0.7	0.5	0.4	1.4	1.4
	Current ratio		1.1	0.9	0.6	2.1	2.2
	Equity ratio	%	41	39	26	37	50
ASSET UTILIZATION AND EFFICIENCY	Net sales pr. employee	USD '000	221	208	212	236	219
	Total asset turnover		0.6	0.5	0.5	0.6	1.2
	Grace period granted	Days	49	55	46	44	44
PROFITABILITY	Return on capital	%	9	5	5	10	20
	Return on common equity	%	11	4	3	15	31
	Operating profit as ratio to net sales	%	16	12	8	10	16
	Net income before taxes as ratio to net sales	%	11	2	0	8	15
	Net income for the period as ratio to net sales	%	8	2	2	7	12
MARKET	Market value of equity	USD '000	349,263	672,024	605,572	695,125	395,514
	Price/earnings ratio, (P/E)		12.3	88.7	138.9	59.5	26.0
	Price/book ratio		1.4	2.7	3.7	4.5	7.2
	Number of shares	Millions	423	423	385	385	318
	Earnings per Share, (EPS)	US Cent	6.74	1.94	1.13	3.53	4.80
	Diluted Earnings per Share, (Diluted EPS)	US Cent	6.73	1.94	1.13	3.52	4.80
	Cash EPS	US Cent	12.29	8.24	6.27	6.34	6.28
	Diluted Cash EPS	US Cent	12.29	8.24	6.27	6.33	6.27

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 2008. Ossur Consolidated Financial Statements are prepared in accordance with International Financial reporting standards (IFRS) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies.

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

The total sales of the Ossur Consolidation amounted to USD 350 million, compared to USD 335.6 million in the preceding year. This represents an increase in sales of approximately 4.3%. Net profit amounted to USD 28.5 million

compared to USD 7.6 million in 2007. Earnings per Share (EPS) amounted to US cents 6.74 compared to US cents 1.94 in 2007. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 79.4 million compared to USD 64.4 million in the preceding year.

The total assets of the Ossur Consolidation amounted to USD 603.8 million at year-end, liabilities were 354.1 million, and equity was 249.6 million. The equity ratio at year-end was 41%, compared to 39% the preceding year.

In the course of the year the Company employed on average 1,587 employees, of which 268 were employed by the parent company in Iceland.

The share price of the Company was 99.8 at year-end, compared to 98.5 at the beginning of the year. The market value of the Company at year-end was 349 million USD and decreased by 48% over the year, due to exchange rate developments as the shares are listed in ISK. At year end, shareholders in Ossur hf. numbered 2,586 compared to 2,842 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: William Demant Invest A/S, with 34.3% and Eyrir Invest Holding ehf. 19.9%.

At 31 March Ossur discontinued its Advanced Wound Care product line with the sale to BSN medical GmbH.

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

The Board of Directors does not recommend payment of dividends to shareholders in 2009. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur for the year 2008 with their signatures.

Reykjavik, 4 February 2009

Board of Directors

Niels Jacobsen
Chairman of the Board

Ossur Kristinsson Kristjan T. Ragnarsson
Thordur Magnusson Svafa Gronfeldt

President and CEO
Jon Sigurdsson

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and shareholders of Ossur hf.

We have audited the accompanying Consolidated Financial Statements of Ossur hf., which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

ness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

Opinion

In our opinion, based on our own audit and the audit reports on the Financial Statements of the foreign subsidiaries of Ossur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies.

Kopavogur, 4 February 2009

Deloitte hf.

Sigurdur Pall Hauksson

State Authorized Public Accountant

Thorsteinn Petur Gudjonsson

State Authorized Public Accountant

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2008 AND 2007

	NOTES	2008	2007
NET SALES	5	350,017	335,609
Cost of goods sold		(143,663)	(146,754)
GROSS PROFIT		206,354	188,855
Other income	8	9,433	12,033
Sales and marketing expenses		(89,963)	(85,152)
Research and development expenses		(20,930)	(19,887)
General and administrative expenses		(48,936)	(56,132)
PROFIT FROM OPERATIONS		55,958	39,716
Financial income	11	864	10,590
Financial expenses	11	(18,589)	(42,253)
PROFIT BEFORE TAX		38,233	8,053
Income tax	12	(9,745)	(473)
NET PROFIT		28,488	7,580
EARNINGS PER SHARE	13		
Basic Earnings per Share		6.74	1.94
Diluted Earnings per Share		6.73	1.94

CONSOLIDATED BALANCE SHEETS

ASSETS

	NOTES	31.12.2008	31.12.2007
NON-CURRENT ASSETS			
Property, plant and equipment	15	32,927	35,970
Goodwill	16	322,381	342,359
Other intangible assets	17	45,175	61,797
Financial assets	19	1,156	1,835
Deferred tax asset	28	56,407	61,603
		458,046	503,564
CURRENT ASSETS			
Inventories	21	55,818	54,277
Accounts receivables	22	43,821	47,405
Other receivables	22	9,828	10,706
Financial assets	19	203	713
Tax asset	28	5,156	3,267
Bank balances and cash	20	30,906	15,889
		145,732	132,257
TOTAL ASSETS		603,778	635,821

31 DECEMBER 2008 AND 31 DECEMBER 2007

EQUITY AND LIABILITIES

	NOTES	31.12.2008	31.12.2007
EQUITY			
Issued capital	23	172,902	173,298
Reserves	24	(4,257)	24,307
Retained earnings	25	81,003	52,677
		249,648	250,282
NON-CURRENT LIABILITIES			
Borrowings	27	183,117	207,417
Deferred tax liabilities	28	25,870	28,826
Provisions	29	3,575	3,118
Financial liabilities	19	9,474	0
		222,036	239,361
CURRENT LIABILITIES			
Borrowings	27	82,070	91,578
Accounts payable		13,593	15,249
Deferred tax liabilities	28	1,206	1,778
Tax liabilities		1,434	3,566
Provisions	29	7,659	6,923
Other liabilities	30	26,132	27,084
		132,094	146,178
TOTAL EQUITY AND LIABILITIES		603,778	635,821

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2008 AND 2007

	NOTES	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		55,958	39,716
Depreciation and amortization	15, 17	23,482	24,676
Gain on disposal of assets		40	113
Changes in operating assets and liabilities		(8,020)	(2,977)
CASH GENERATED BY OPERATIONS		71,460	61,528
Interest received		283	10,554
Interest paid		(16,948)	(23,376)
Taxes paid		(1,960)	(3,005)
NET CASH PROVIDED BY OPERATING ACTIVITIES		52,835	45,701
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	15, 17	(7,754)	(7,126)
Proceeds from sale of fixed assets		959	266
Acquisition of subsidiaries		0	(10,842)
Changes in financial assets		147	(79)
		(6,648)	(17,781)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings		(14,271)	(87,693)
Proceeds from long-term borrowings		0	15,605
Repayments of long-term borrowings		(15,943)	(18,945)
Paid in share capital		0	65,744
Cost due to increasing capital	23	(396)	0
		(30,610)	(25,289)
NET CHANGE IN CASH		15,577	2,631
EFFECTS OF FOREIGN EXCHANGE ADJUSTMENTS		(560)	1,080
CASH AT BEGINNING OF YEAR		15,889	12,178
CASH AT END OF YEAR		30,906	15,889
Additional information regarding cash flow	14		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2008

	SHARE CAPITAL	SHARE PREMIUM	STATUTORY RESERVE	STOCK OPTION RESERVE	HEDGING RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 January 2007	4,170	103,383	1,043	0	0	7,947	45,096	161,639
Loss on hedge of a net investment in foreign operations						(10,599)		(10,599)
Gain on cash flow hedges					552			552
Translation difference of shares in foreign companies						25,031		25,031
Net gains not recognised in the income statement	0	0	0	0	552	14,432	0	14,985
Issue of ordinary shares	651	65,093						65,744
Share option charge for the year				332				332
Net profit							7,580	7,580
Balance at 31 December 2007	4,821	168,477	1,043	332	552	22,379	52,677	250,282
Gain on hedge of a net investment in foreign operations net of tax						1,252		1,252
Loss on cash flow hedges net of tax					(8,605)			(8,605)
Translation difference of shares in foreign operations						(22,029)		(22,029)
Net loss not recognised in the income statement	0	0	0	0	(8,605)	(20,777)	0	(29,382)
Cost due to increasing capital		(396)						(396)
Share option charge for the year				657				657
Transferred to statutory reserves			162				(162)	0
Net profit							28,488	28,488
Balance at 31 December 2008	4,821	168,081	1,205	989	(8,053)	1,602	81,003	249,648

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

According to the Company's organizational structure, the consolidation is divided into four main functions; Corporate Finance, responsible for overall financial management; Manufacturing & Operations, responsible for all production, inventory management and distribution; Research & Development, responsible for product development, product management and quality control; Sales & Marketing responsible for sales and marketing through the subsidiaries.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The Consolidated Financial Statements is presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IAS 39	Financial Instruments: Recognition and Measurement (revised 2008)
IFRIC 11, IFRS 2	Group and treasury share transactions
IFRIC 12	Service concession arrangements
IAS 19, IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

2.2 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

Following is an overview of new standards, amendments to standards and interpretations that are not yet effective for the year end, but will be effective in 2009.

IFRS 2	Share-based Payment (revised 2008)
IFRS 3	Business Combinations (revised 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (revised 2008)
IAS 23	Borrowing Costs (revised 2008)
IAS 27	Consolidated financial statements and separate financial statements (revised 2008)
IAS 39	Financial Instruments: Recognition and Measurement (revised 2008)
IFRIC 13	Customer loyalty programs
IFRIC 15	Agreements for the construction of real estates
IFRIC 16	Hedges of a net investments in a foreign operations
IFRIC 17	Distributions of non-cash assets for owners.

It is the management's assessment that the adoption of the above standards will not have material effect on the Consolidated Financial Statements, except for the additional disclosure requirements for operating segments according to IFRS 8.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 STATEMENT OF COMPLIANCE

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

3.2 BASIS OF PREPARATION

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The Consolidated Financial Statements are presented in USD, which is the Company's functional currency. The principal accounting policies are set out below.

3.3 BASIS OF CONSOLIDATION

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

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

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

3.4 BUSINESS COMBINATION

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

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

3.5 GOODWILL

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

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

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

3.6 REVENUE RECOGNITION

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

SALE OF GOODS

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

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

ROYALTIES

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

INTEREST INCOME

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

3.7 LEASING

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

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

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

3.8 FOREIGN CURRENCIES

The individual Financial Statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates in. For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements. Currency used for translating to USD is derived from the Central Bank of Iceland.

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

Exchange differences are recognised in profit or loss in the period, except exchange differences relating to hedge of a net investment in foreign operations.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates

for each quarter within the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

3.9 BORROWING COSTS

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

3.10 PENSION OBLIGATION

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

3.11 TAXATION

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

CURRENT TAX

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods

and it further excludes items that are never taxable or deductible. The consolidated Company's current tax liability is calculated using the tax rates for each country.

DEFERRED TAX

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

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

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

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

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

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

3.12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

3.13 INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

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

INTERNALLY-GENERATED INTANGIBLE ASSETS

– RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

INTANGIBLE ASSETS ACQUIRED

IN A BUSINESS COMBINATION

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

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

3.14 IMPAIRMENT OF TANGIBLE AND

INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets

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

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

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

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

3.15 INVENTORIES

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

3.16 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.

3.17 RISK MANAGEMENT

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

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

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

3.18 FINANCIAL ASSETS

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction

costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

LOANS AND RECEIVABLES

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

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that oc-

curred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

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

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

3.19 FINANCIAL LIABILITIES

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3.20 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 30.

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

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

HEDGE ACCOUNTING

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges or hedges

of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

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

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

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

As described at 3.12 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

5. NET SALES

	2008	2007
Americas	163,204	162,025
EMEA	173,858	163,089
Asia	12,955	10,495
	350,017	335,609

Net sales are specified as follows according to currency:

	2008	2007
US Dollar, USD	168,740	166,336
Euro, EUR	116,654	104,777
British Pound, GBP	24,789	26,099
Canadian dollar, CAD	15,379	15,145
Swedish Krona, SEK	12,151	11,104
Norwegian Krona, NOK	6,602	6,097
Australian Dollar, AUD	2,258	2,195
Icelandic Krona, ISK	1,791	2,343
Other	1,653	1,515
	350,017	335,609

6. GEOGRAPHICAL SEGMENTS

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

2008	AMERICAS	EMEA	ASIA	ELIMINATIONS	CONSOLIDATED
REVENUE					
External sales	163,204	173,858	12,955	350,017	
Inter-segment sales	26,712	75,787	0	(102,498)	0
Total revenue	189,915	249,645	12,955	(102,498)	350,017
Inter-segment sales are calculated from production cost.					
RESULT					
Segment result	21,892	30,612	3,454	0	55,958
Financial income/(expenses)					(17,725)
Profit before tax					38,233
Income tax					(9,745)
Net profit					28,488
OTHER INFORMATION					
Capital additions	2,073	5,184	497	0	7,754
Depreciation and amortization	13,533	9,887	62	0	23,482
BALANCE SHEET 31.12.2008					
ASSETS					
Segment assets	406,532	926,189	4,245	(733,188)	603,778
LIABILITIES					
Segment liabilities	295,042	553,895	6,353	(501,160)	354,130

2007

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

7. BUSINESS SEGMENTS

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

Net sales are specified as follows according to product lines:

	2008	2007
Prosthetics	143,218	131,722
Bracing and support	181,359	179,839
Compression Therapy (Phlebology)	20,082	19,107
Other products	5,358	4,941
	<u>350,017</u>	<u>335,609</u>

8. OTHER INCOME

Included in other income is a gain amounting to 8.4 million USD related to sale of the Advanced Wound Care product line to BSN medical GmbH, a leading global provider of wound care products. Following this sale the Company settled on 15 September 2008 all intellectual property litigation related to the Advanced Wound Care product line.

Included in other income in 2007 is a gain from the sale of the option to buy the Companies facilities in Iceland and a legal settlement amounting to USD 10.9 million.

9. SALARIES

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

	2008	2007
Salaries	85,273	82,593
Salary-related expenses	27,751	30,650
	<u>113,023</u>	<u>113,244</u>
Average number of positions	1,587	1,617

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

	2008	2007
Cost of goods sold	41,525	39,616
Sales and marketing	43,826	43,478
Research and development	7,235	7,993
General and administrative	20,438	22,157
	<u>113,023</u>	<u>113,244</u>

MANAGEMENT SALARIES AND BENEFITS

	SALARIES AND RELATED EXP.	STOCK OPTIONS	SHARES OWNED
BOARD OF DIRECTORS:			
Niels Jacobsen Chairman of the Board	50	0	0
Thordur Magnusson Vice Chairman (i)	30	0	84,040,215
Ossur Kristinsson (ii)	61	0	37,526,769
Kristjan Tomas Ragnarsson	20	0	619,539
Svafa Gronfeldt	20	0	0

EXECUTIVE COMMITTEE:

Jon Sigurdsson President and CEO	754	1,250,000	24,458,841
Hjorleifur Palsson CFO	439	308,000	700,000
Egill Jonsson VP of Manufacturing & Operations	333	308,000	18,499
Hilmar Bragi Janusson VP of R&D	397	308,000	3,660,347
Mahesh Mansukhani Presid. of S&M America	250	500,000	0
Eythor Bender former Presid. of S&M America	753	0	0
Olafur Gylfason Man. Director S&M EMEA	317	308,000	476,368

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

- (i) Shares owned by Eyrir Invest ehf. of which Thordur Magnusson owns 20% and is the Chairman of the Board.
- (ii) Shares owned by Mallard Holding which is owned by the founder of the company Ossur Kristinsson and his family.

No trading transactions were entered with these related parties during the year.

10. FEES TO AUDITORS

	2008	2007
Audit of Financial Statements	710	730
Review of Interim Financial Statements	252	416
Other services	235	229
	<u>1,198</u>	<u>1,375</u>

11. FINANCIAL INCOME / (EXPENSES)

Financial income and (expenses) are specified as follows:

	2008	2007
FINANCIAL INCOME:		
Bank deposit	204	1,527
Income from financial assets	0	346
Fair value changes of derivatives	640	8,700
Other interest income	20	17
	<u>864</u>	<u>10,590</u>
FINANCIAL EXPENSES:		
Financial on bank overdrafts and loans	(17,627)	(25,167)
Expenses from financial assets	(131)	0
Other interest expenses	(545)	(551)
	<u>(18,303)</u>	<u>(25,718)</u>
Exchange rate differences	(286)	(16,535)
	<u>(18,589)</u>	<u>(42,253)</u>
Net Financial costs	(17,725)	(31,663)

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

12. INCOME TAX

Income tax is specified as follows:

	2008	2007
Current tax expenses	(465)	(5,543)
Deferred tax (expenses) / revenue	(9,280)	5,070
	<u>(9,745)</u>	<u>(473)</u>

	2008 AMOUNT	%	2007 AMOUNT	%
Profit before taxes	38,233		8,053	
Income tax revenue calculated at 15%/18%	(5,735)	15%	(1,449)	18%
Effect of different tax rates of other jurisdictions	(1,585)	4%	4,226	(52%)
Effect of nondeductible expenses/revenues	(1,126)	3%	(837)	10%
Effect of change in tax rate	(590)	2%	(2,628)	33%
Effect of previously recognised tax loss reversed	0	0%	(276)	3%
Other changes	(709)	2%	490	(6%)
	<u>(9,745)</u>	<u>25%</u>	<u>(473)</u>	<u>6%</u>

During the year the income tax rate in Iceland changed from 18% to 15%. The effect on the Income Statement due to changes in tax rates amount to USD 590 thousand.

13. EARNINGS PER SHARE

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

	2008	2007
Net profit	28,488	7,580
Total average number of shares outstanding during the year (in thousands)	422,982	394,405
Total average number of shares including potential shares (in thousands)	423,026	391,295
Basic Earnings per Share (US cent)	6.74	1.94
Diluted Earnings per Share (US cent)	6.73	1.94
Cash Earnings per Share	12.29	8.24
Diluted Cash Earnings per Share	12.29	8.24

14. ADDITIONAL INFORMATION REGARDING CASH FLOW

	2008	2007
Net profit	28,488	7,580
Items not affecting cash	29,582	36,411
<hr/>		
Working capital provided by operating activities	58,070	43,991
Increase in inventories	(4,567)	(7,423)
Decrease in receivable	535	5,454
(Decrease) / Increase in payables	(1,203)	3,679
<hr/>		
Net cash provided by operating activities	52,835	45,701

15. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets are specified as follows:

	BUILDINGS & SITES	MACHINERY & EQUIPMENT	FIXTURES & OFFICE EQUIP.	TOTAL
COST				
At 1 January 2008	17,274	34,286	28,182	79,742
Additions	419	3,870	3,465	7,754
Exchange differences	(620)	(1,880)	(1,025)	(3,525)
Eliminated on disposal	0	(1,776)	(794)	(2,570)
Fully depreciated assets	0	(471)	0	(471)
At 31 December 2008	17,073	34,029	29,828	80,930
ACCUMULATED DEPRECIATION				
At 1 January 2008	8,351	20,731	14,690	43,772
Charge for the year	525	3,339	4,863	8,727
Exchange differences	(355)	(1,515)	(585)	(2,455)
Eliminated on disposal	0	(954)	(616)	(1,570)
Fully depreciated assets	0	(471)	0	(471)
At 31 December 2008	8,521	21,130	18,352	48,003
CARRYING AMOUNT				
At 31 December 2008	8,552	12,899	11,476	32,927
At 31 December 2007	8,923	13,555	13,492	35,970

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2008	2007
Cost of goods sold	3,507	3,027
Sales and marketing expenses	678	320
Research and development expenses	319	236
General and administrative expenses	4,223	5,447
	<u>8,727</u>	<u>9,029</u>

The following rates are used for the depreciation:

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

16. GOODWILL

COST

	31.12.2008
At 1 January 2008	342,359
Reclassification of Goodwill to deferred tax	(3,047)
Addition due to previous acquisitions	2,399
Exchange differences	(19,330)
At 31 December 2008	<u>322,381</u>

CARRYING AMOUNT

At 31 December 2008	<u>322,381</u>
At 31 December 2007	342,359

During the financial year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with certain of the Group's construction have not suffered an impairment loss.

16.1 ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

The carrying amount of goodwill was allocated to the following cash-generating units:

	WACC %	2008	2007
Ossur Americas	10.03 / 11.20	196,280	204,607
Ossur Europe	11.01 / 12.33	25,241	31,632
Gibaud	11.03 / 12.33	98,283	103,235
Ossur Asia	11.33 / 12.70	2,577	2,885
		<u>322,381</u>	<u>342,359</u>

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets for 2009 approved by the directors and the company's five-year strategy plan. The discount rate of 10.0 – 11.3% (2007: 11.20 – 12.70%) per annum was used.

Cash flows beyond that five year period have been extrapolated using a steady 3% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in each market area. The directors believe that any reasonably further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

17. OTHER INTANGIBLE ASSETS

	CUST./DISTRIB. RELATIONSHIP	PATENT	TRADEMARK	OTHER	TOTAL
COST					
At 1 January 2008	29,731	16,615	36,307	16,784	99,437
Exchange differences	(1,496)	(758)	(1,564)	0	(3,818)
At 31 December 2008	28,235	15,857	34,743	16,784	95,619
AMORTIZATION					
At 1 January 2008	14,097	8,451	5,568	9,524	37,640
Charge for the year	8,828	2,362	1,125	2,440	14,755
Exchange differences	(916)	(565)	(470)	0	(1,951)
At 31 December 2008	22,009	10,248	6,223	11,964	50,444
CARRYING AMOUNT					
At 31 December 2008	6,226	5,609	28,520	4,820	45,175
At 31 December 2007	15,634	8,164	30,739	7,260	61,797

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

	2008	2007
Cost of goods sold	70	456
Sales and marketing expenses	7,778	7,258
Research and development expenses	4,091	4,418
General and administrative expenses	2,816	3,515
	14,755	15,647

The intangible assets included above have finite useful lives, over which the assets are amortized.

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

Customer and distribution relationship	20 to 30%
Patent	2 to 20%
Trademark	3 to 35%
Other	10 to 35%

18. THE CONSOLIDATION

NAME OF SUBSIDIARY	PLACE OF REGISTRATION AND OPERATION	OWNERSHIP %	PRINCIPAL ACTIVITY
Ossur Holding, AB	Sweden	100%	Holding
Ossur Nordic, AB	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB	Sweden	100%	No operation
Ossur Americas Holdings, Inc.	USA	100%	Holding
Ossur Americas, Inc.	USA	100%	Manufacturer, sales, distribution and services
Empower Business Sol., Inc	USA	100%	No operation
Empower Business Solutions, Inc	USA	100%	Services
Ossur Funding	USA	100%	Holding
Ossur Canada, Inc.	Canada	100%	Manufacturer, sales, distribution and services
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services
Ossur UK, Holdings, Ltd	UK	100%	Holding
IMP Holdings, Ltd	UK	100%	Holding
Ossur UK, Ltd	UK	100%	Sales, distribution and services
TIM Holdings, Ltd	UK	100%	Holding
TIM, Ltd	UK	100%	Distribution and services
IMP, Ltd	UK	100%	R&D and manufacturer
Ortex, Ltd.	UK	100%	Manufacturer
Ossur Holding France (SAS)	France	100%	Holding
Gibaud Pharma (EURL)	France	100%	Immaterial Operations
Gibaud (SAS)	France	100%	Manufacturer, sales, distribution and services
Derby Finances (SAS)	France	50%	Manufacturer
Tournier Bottu (SAS)	France	100%	Manufacturer
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. & Rehabil. Co, Ltd.	China	100%	Manufacturer, sales, distribution and services
Gentleheal ehf.	Iceland	100%	No operation

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

A new company Ossur Funding was established. It is a holding entity whose sole purpose is to maintain bank relations in America.

19. FINANCIAL ASSETS (LIABILITIES)

	CURRENT		NON-CURRENT	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Derivatives designated and effective as hedging instruments carried at fair value				
Interest rate swaps	0	0	(9,474)	552
Financial assets carried at fair value through profit or loss (FVTPL)				
Non-derivative financial assets	0	0	1,156	1,283
Held for trading non-derivative financial assets	203	713	0	0
	203	713	1,156	1,283
	203	713	(8,318)	1,835

20. BANK BALANCES AND CASH

	31.12.2008	31.12.2007
Bank accounts	27,836	12,738
Bankers draft received	2,840	2,945
Cash and other cash equivalents	230	206
	30,906	15,889

21. INVENTORIES

	31.12.2008	31.12.2007
Raw material	16,756	18,151
Work in progress	5,191	4,497
Finished goods	33,871	31,629
	55,818	54,277

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 10,194 thousand (2007: USD 10,858) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,639 thousand (2007: USD 2,835) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The cost of inventories recognised as an expense includes USD 2,293 thousands in respect of write-downs of inventory to net realisable value. Reserve for obsolete inventories at year-end is USD 3,129 (2007: 2,717) thousands and has been increased by USD 412 thousands during the year.

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

22. ACCOUNTS AND OTHER RECEIVABLES

	31.12.2008	31.12.2007
Nominal value	47,552	51,915
Allowances for doubtful accounts	(3,016)	(3,794)
Allowances for sales return	(715)	(716)
	43,821	47,405

The average credit period on sales of goods is 49 days (2007: 50 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. The directors consider that the carrying amount of receivables approximates their fair value.

Aging of accounts receivables

	31.12.2008	31.12.2007
0 – 90 days	41,269	45,041
Older than 90 days	6,283	6,874
	47,552	51,915

22. ACCOUNTS AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful accounts

	2008	2007
At 1 January	(3,797)	(1,162)
Impairment losses recognised on receivables	(1,004)	(2,781)
Amounts written off as uncollectible	1,542	208
Exchange rate difference	243	(59)
At 31 December	(3,016)	(3,794)

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

Other receivables

	31.12.2008	31.12.2007
VAT refundable	865	1,228
Prepaid expenses	5,497	5,257
Other	3,466	4,221
	9,828	10,706

23. ISSUED CAPITAL

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

	SHARES	NOMINAL VALUE
Total share capital at year-end	423	4,821

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

Changes in share capital are as follows:	SHARE CAPITAL	SHARE PREMIUM	ISSUED CAPITAL
Balance at 1 January 2007	4,170	103,383	107,553
Issue of ordinary shares	651	65,093	65,744
Share capital at 1 January 2008	4,821	168,477	173,298
Cost due to increasing capital	0	(396)	(396)
Balance at 31 December 2008	4,821	168,081	172,902

24. RESERVES

	STATUTORY RESERVE	HEDGING RESERVE	SHARE OPTION RESERVE	TRANS-LATION RESERVE	TOTAL RESERVES
Balance at 1 January 2007	1,043	0	0	7,947	8,990
Gain on cash flow hedges		552			552
Share option charge for the year			332		332
Loss on hedge of a net investment				(10,599)	(10,599)
Transl. diff. of foreign operations				25,031	25,031
Balance at 1 January 2008	1,043	552	332	22,379	24,307
Loss on cash flow hedges		(8,605)			(8,605)
Share option charge for the year			657		657
Transferred to statutory reserves	162				162
Loss on hedge of a net investment				1,252	1,252
Transl. diff. of foreign operations				(22,030)	(22,030)
Balance at 31 December 2008	1,205	(8,053)	989	1,601	(4,257)

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

25. RETAINED EARNINGS

	RETAINED EARNINGS
At 1 January 2007	45,096
Net profit	7,580
At 1 January 2008	52,677
Transferred to statutory reserves	(162)
Net profit	28,488
At 31 December 2008	81,003

26. STOCK OPTION CONTRACTS AND OBLIGATIONS TO INCREASE SHARE CAPITAL

At the annual meeting at 22 February 2008 it was agreed to grant managers of the Company, at the Board's discretion, share options agreements. The maximum number of shares to be allocated is 5,000,000 or 1.18% of the Company's current outstanding stock capital. At Balance sheet date option agreements for 2,450,000 shares have been granted to managers. These options will vest during 2012. The weighted average contract rate is ISK 91.15 per share, estimated costs due to the stock option contracts are USD 1.4 million which will be expensed over the next four years. An expense of USD 0.3 million is recognised in the Income Statement for the year.

At the annual meeting it was also agreed to change the strike price of previously issued stock option agreements granted to the CEO and the six members of the Executive Committee from 113.4 to 92.3. The total number of shares to be provided was 3,098,000. Due to changes in the Executive Committee in June the total number of shares rose to 3,290,000 or 0.77% of the Company's current outstanding stock capital. These options will vest during the month of December 2011 and July 2012. Estimated cost due to the stock option contracts are USD 2.0 million which will be expensed over the next four years. An expense of USD 0.4 million is recognised in the Income Statement for the year.

	NUMBER	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
Issued 5 February 2007	1,540,000	2.5.07	12.1.11	92.3	109.5
Issued 8 February 2007	1,250,000	2.5.07	12.1.11	92.3	109.0
Issued 23 February 2008	2,450,000	2.23.08	2.23.12	91.2	93.1
Issued 15 July 2008	500,000	7.15.08	7.15.12	90.9	95.8

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

	2008		2007	
	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	3,098	92.30	3,098	113.40
Granted during the year	3,150	91.15	0	0.00
Forfeited during the year	(508)	91.90	0	0.00
Outstanding at the end of the year	5,740	91.70	3,098	113.40

27. BORROWINGS

	CURRENT		NON - CURRENT	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Secured – at amortized cost				
Loans in USD	13,630	9,889	116,339	130,218
Loans in EUR	7,172	5,878	66,736	77,099
Other borrowings	32	307	42	100
Bank overdrafts	7,583	1,444	0	0
Bridge loan in EUR	53,653	74,060	0	0
At end of year	82,070	91,578	183,117	207,417

Aggregated annual maturities of long term loans are as follows:

In 2009 / 2008	20,834	16,074
In 2010 / 2009	20,886	21,236
In 2011 / 2010	75,604	21,203
In 2012 / 2011	86,627	76,576
In 2013 / 2012	0	88,202
	203,951	223,291

SUMMARY OF BORROWING ARRANGEMENTS

The Company's major credit facility was entered into in 2005. The term loan facility was originally in the amount of USD 200 million and was increased by USD 40 million in 2006 and USD 15.5 million in 2007 to finance acquisitions. The term loan consists of an amortizing loan maturing in 2010 and bullet loans amortizing in 2011 and 2012. Approximately 64% of the total term loan is in USD and 36% in EUR.

In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. Proceeds from the Company's equity offering in November 2007 as well as excess cash were used to partially repay the bridge loan facility in the fourth quarter of 2007. The outstanding amount including interests of EUR 38.2 million (USD 53.7) is included in the Company's current liabilities at the end of the year.

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

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

The average interest rate in 2008 was 5.95% (2007: 6.07%).

Debt issuance cost has been capitalized and is amortized over the term of the loan. The remaining amount is USD 1.7 million at year-end.

28. DEFERRED TAX ASSET / (LIABILITY)

	31.12.2008	31.12.2007
At 1 January	34,266	30,281
Calculated tax for the year	(9,745)	(473)
Arising on acquisition of a subsidiary	0	(879)
Reclassification of goodwill to tax asset	3,047	0
Recognised directly through equity	1,191	0
Income tax payable for the year	376	5,548
Exchange differences	5,352	(211)
At 31 December	34,487	34,266

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

	ASSETS	LIABILITIES	NET
Goodwill	47,471	0	47,471
Intangible assets	0	(27,076)	(27,076)
Operating fixed assets	1,367	(518)	849
Tax loss carry forward	4,771	0	4,771
Inventories	3,287	0	3,287
Provisions	2,183	0	2,183
Current liabilities	1,875	0	1,875
Other	1,375	(248)	1,127
Total tax assets/ (liabilities)	62,329	(27,842)	34,487
Tax asset and liabilities offsetting	(766)	766	0
Total	61,563	(27,076)	34,487

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

Non Current deferred tax asset / (liabilities)	56,407	(25,870)
Current deferred tax asset / (liabilities)	5,156	(1,206)
	61,563	(27,076)

29. PROVISIONS

	CURRENT		NON-CURRENT	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Warranty ⁽ⁱ⁾	3,835	1,847	2,704	2,347
Restructuring ⁽ⁱⁱ⁾	3,017	3,788	0	0
Other	807	1,288	871	771
	7,659	6,923	3,575	3,118

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

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

	WARRANTY PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL
At 1 January 2008	4,194	3,788	2,059	10,041
Additional provision recognised	4,225	0	(238)	3,987
Utilization of provision	(1,880)	(604)	0	(2,484)
Exchange differences	0	(167)	(143)	(310)
At 31 December 2008	6,539	3,017	1,678	11,234

30. OTHER LIABILITIES

	31.12.2008	31.12.2007
Accrued expenses	7,279	6,019
Accrued salaries and related expenses	12,928	14,239
Royalties	1,334	1,296
Sales tax and V.A.T.	429	2,399
Payable due to previous acquisition	2,324	0
Other	1,839	3,131
	26,132	27,084

31. FINANCIAL INSTRUMENTS

31.1 CAPITAL RISK MANAGEMENT

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

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

EQUITY RATIO

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

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

	31.12.2008	31.12.2007
Equity	249,648	250,282
Total assets	603,778	635,821
Equity ratio	41.3%	39.4%

31.2 SIGNIFICANT ACCOUNTING POLICIES

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

31.3 FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company's Corporate finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports

which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

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

31.4 FOREIGN CURRENCY RISK MANAGEMENT

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

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

	LIABILITIES		ASSETS	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
USD	156,000	152,462	67,498	58,188
EUR	151,193	174,612	55,936	50,268
GBP	1,169	3,831	8,046	8,414
SEK	2,196	3,608	5,370	8,484
CAD	358	1,285	2,296	3,207
Other	4,905	9,096	2,587	2,264
	315,820	344,894	141,732	130,825

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

The following table details the Company's sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis in-

cludes all foreign currency denominated items and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where USD weakens 10% against the relevant currency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	EUR		ISK	
	2008	2007	2008	2007
Profit or loss	(i) 2,549	1,534	(ii) (2,952)	(2,939)
Other equity	6,264	3,654	(287)	(400)

(i) 28% (2007: 26%) of the Company's cost is in EUR against 32% (2007: 30%) of its total income causing an increase in profit if the USD decreases against the EUR.

(ii) This is attributable to the fact that approximately 10% (same in 2007) of the Company's operating cost is in ISK against 0.5% (1% in 2007) of its income.

FORWARD FOREIGN EXCHANGE CONTRACTS

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

31.5 INTEREST RATE RISK MANAGEMENT

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

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

Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates to fixed with an average weighted interest rate of 4.34% for periods up to 2012. The fair value of interest rate swaps at the reporting date is de-

terminated by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

Outstanding interest rate swap contracts (cash flow hedge) at 31 December 2008 are due over the next four years. The contracts' fair value is negative USD 9.5 million and principal amount USD 167 million.

The Company's Interest Rate Swap Agreements were made with Kaupthing Bank hf. (the "Bank") in November 2005. On the 9th of October 2008, the Icelandic Financial Supervisory Authority (the "FSA") used powers granted by the Icelandic Parliament, with reference to Act No. 161/2002, to take control of the Bank by assuming the powers of a meeting of shareholders and appointing a Resolution Committee. On the 21st of October 2008, FSA decided to transfer a substantial part of the Bank's assets and operations to a new bank, New Kaupthing Bank hf. (the "New Bank"). The New Bank was formed and is fully owned by the Icelandic Government. The transfer of assets from the Bank to the New Bank included all Ossur's long term loan agreements. However, as a general rule, no derivative contracts were transferred from the Bank to the New Bank, including Ossur's Interest Rate Swap Agreements. On 24th of November 2008, the District Court of Reykjavik granted the Bank a moratorium. The final treatment of Ossur's Interest Rate Swap Agreements at the Bank is therefore subject to uncertainty.

31.6 LIQUIDITY RISK MANAGEMENT

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At year end the Company had undrawn revolving credit facilities at its disposal amounting to USD 827 thousand to further reduce liquidity risk.

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

	WEIGHTED AVERAGE EFFECTIVE INTEREST	LESS THAN 1 YEAR	1-5 YEARS	5+ YEARS	TOTAL
2008					
Borrowings	5.95%	97,882	208,769	0	306,651
Non-interest bearing liabilities	–	41,159	0	0	41,159
		139,041	208,769	0	347,810
2007					
Borrowings	6.07%	109,721	198,244	54,676	362,641
Non-interest bearing liabilities	–	45,899	0	0	45,899
		155,620	198,244	54,676	408,540

32. OPERATING LEASE ARRANGEMENTS

Payments recognised as an expense:

	2008	2007
Minimum lease payments	7,641	7,645
Non-cancellable operating lease commitments		
	31.12.2008	31.12.2007
Not longer than 1 year	5,964	7,838
Longer than 1 year and not longer than 5 years	16,691	20,418
Longer than 5 years	7,735	15,760
	30,390	44,016

Operating lease payments represent rentals payable by the consolidation for certain of its office properties and cars. Thirty-five rental agreements are in place for premises in Reykjavik, Netherlands, Germany, Canada, Australia, Sweden, United Kingdom, China and the United States. The leases expire in the years 2009-2017.

33. LITIGATION

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

34. INSURANCE

	INSURANCE VALUE	BOOK VALUE
Fixed assets and inventories	146,344	98,936

The consolidation has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is USD 276 million. In addition the consolidation has a product & professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductible amount on the product & professional liability and product recall insurances is USD 50 thousand.

35. EVENTS AFTER THE BALANCE SHEET DATE

On January 28th 2009 New Kaupthing Bank hf. approved to refinance the bridge loan facility with the outstanding amount of EUR 37.4 million at December 31st 2008, by increasing the amount within previous long-term loan facilities. The new loan facilities have not been finalised.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on February 4th 2009.

37. UNAUDITED INFORMATION

The following informations are not audited as they relate to quarterly information and the Company only requires an audit for the full year.

QUARTERLY STATEMENTS

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	TOTAL 2008
Net sales	89,754	92,881	87,264	80,118	350,017
Cost of goods sold	(36,577)	(38,634)	(35,499)	(32,953)	(143,663)
Gross profit	53,177	54,247	51,765	47,165	206,354
Other income	5,739	1,264	2,479	(49)	9,433
Sales and marketing expenses	(23,499)	(23,388)	(22,059)	(21,017)	(89,963)
Research and development expenses	(5,424)	(5,379)	(5,100)	(5,027)	(20,930)
General and administrative expenses	(12,952)	(14,000)	(11,727)	(10,257)	(48,936)
Restructuring expenses	0	0	0	0	0
Profit from operations	17,041	12,744	15,358	10,815	55,958
Financial income	93	105	27	639	864
Financial expenses	(9,136)	(5,200)	2,355	(6,608)	(18,589)
Profit before tax	7,998	7,649	17,740	4,846	38,233
Income tax	(1,314)	(3,705)	(4,051)	(675)	(9,745)
Net profit	6,684	3,944	13,689	4,171	28,488

Ossur's subsidiary Gibaud implemented the Company's accounting policies at the start of the current year, adjustments have been made to Gibaud's 2007 Income Statement accordingly. The effects on the Consolidation in 2007 are reclassifications between expenses in the Income Statement amounting to USD 6.8 million in cost of goods sold and the same amount decreases operating expenses. This reclassification has no effect on the Company's operational profit or net result in 2007.

37. UNAUDITED INFORMATION (CONTINUED)

RECLASSIFICATION OF 2009 COMPARATIVE FIGURES

In 2009 all income and expenses related to freight to customers will be classified as sales and marketing expenses. This will affect the 2008 comparative figures in the 2009 financial reports. The total reclassification from net sales and cost of goods sold can be seen in the table below. This reclassification has no effect on the Company's operational profit or net result.

2008 RECLASSIFICATION OF FREIGHT

	TOTAL	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net sales	(3,182)	(678)	(794)	(826)	(884)
Cost of goods sold	11,031	2,524	2,738	2,978	2,791
Gross profit	7,849	1,846	1,944	2,152	1,907
Other income	0	0	0	0	0
Sales and marketing expenses	(7,849)	(1,846)	(1,944)	(2,152)	(1,907)
Research and development expenses	0	0	0	0	0
General and administrative expenses	0	0	0	0	0
Profit from operations	0	0	0	0	0

2008 WITH RECLASSIFICATION OF FREIGHT

	TOTAL	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net sales	346,835	79,440	86,470	92,055	88,870
Cost of goods sold	(132,632)	(30,429)	(32,761)	(35,656)	(33,786)
Gross profit	214,203	49,011	53,709	56,399	55,084
Other income	9,433	(49)	2,479	1,264	5,739
Sales and marketing expenses	(97,812)	(22,863)	(24,003)	(25,540)	(25,406)
Research and development expenses	(20,930)	(5,027)	(5,100)	(5,379)	(5,424)
General and administrative expenses	(48,936)	(10,257)	(11,727)	(14,000)	(12,952)
Profit from operations	55,958	10,815	15,358	12,744	17,041



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.

The Ossur Annual Report has been prepared in-house by Ossur employees. All photos in the report are existing marketing material. The only external cost occurred is for layout, printing and proofreading.

OFFICES

OSSUR HEAD OFFICE

Grjóthals 5
110 Reykjavík, Iceland
Tel. + 354 515 1300

OSSUR AMERICAS

ALBION

910 Burnstein Drive
Albion, Michigan 49224, USA
Tel. + 517 629 8890

ALISO VIEJO

27412 Aliso Viejo Pkwy
Aliso Viejo, CA 92656, USA
Tel. + 800 233 6263
Tel. + 949 362 3883

CAMARILLO

742 Pancho Road
Camarillo, CA 93012, USA
Tel. + 805 484 2600

FOOTHILL RANCH

19762 Pauling
Foothill Ranch, CA 92610, USA
Tel. + 949 859 4407

PAULSBORO

Mid Atlantic Corporate Center
1414 Metropolitan Ave
Paulsboro, New Jersey 08066, USA
Tel. + 800 923 9760

RICHMOND

12111 Jacobson Way
Richmond, BC
V6W 1L5, Canada
Tel. + 604 241 8152

OSSUR EUROPE

EKKERSRIJT 4112-4114

PO Box 120,
5690 AC Son, The Netherlands
Tel. + 800 3539 3668
Tel. + 31 499 462840

CUSTOMER SERVICE GERMANY

Römerfeldstrasse 2
50259, Pulheim, Germany
Tel. + 49 2238 305850

MANCHESTER

Building 3000
Manchester Business Park
Aviator Way,
Manchester M22 5TG, UK
Tel. + 8450 065 065

UPPSALA

Box 67
751 03 Uppsala, Sweden
Tel. + 46 1818 2200

GIBAUD

73, Rue de la Tour-BP 78
42002 St-Etienne Cedex 01, France
Tel. + 33 4 7791 3030

OSSUR ASIA

SHANGHAI

1801 Hongmei Road, 2F W16 B
200233, Shanghai, China
Tel. + 86 21 6127 1700

SYDNEY

2 Redbank Road
Northmead NSW 2152, Australia
Tel. + 61 2 9630 9206

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Life Without Limitations®

OSSUR HF.
HEAD OFFICE

Grjóthals 5
110 Reykjavík, Iceland
Tel. + 354 515 1300
www.ossur.com

