Ossur hf.

Consolidated Financial Statements

September 30th 2008

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

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Statement by the Board of Directors and President and CEO

The Interim Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 September 2008 consist of the Consolidated Financial Statements of Ossur hf. and its subsidiaries. The Interim Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards for Interim Financial Statements, IAS 34.

The total sales of the Ossur Consolidation amounted to USD 269.9 million. The net profit amounted to USD 24.3 million and according to the Balance Sheets the total assets of the Ossur Consolidation amounted to USD 614,9 million at the end of period, liabilities were 350.6 million, and equity was 264.4 million.

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

The Consolidated Financial Statements for the period from 1 January to 30 September 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. It is our opinion that these Interim Consolidated Financial Statements present all the information necessary to give a true and fair view of the company's assets and liabilities, financial position at 30 September 2008 and operating performance of the period ended 30 September 2008.

In our opinion the Interim Consolidated Financial Statements and Statement by the Board of Directors and President and CEO give a fair view of the developement and performance of the Companys operations and its position and describes the principal risks and uncertainties faced by the company.

The Board of Directors and the President and CEO of Ossur hf. have today discussed the Interim Consolidated Financial Statements for the period from 1 January to 30 September 2008 and confirmed with their signatures.

Reykjavik, 27 October 2008

Board of Directors

Niels Jacobsen
Chairman of the Board

Ossur Kristinsson

Kristjan T. Ragnarsson

Thordur Magnusson

Svafa Gronfeldt

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		YTD 2008	YTD 2007	2007	2006	2005	2004
Growth							
Net sales	USD '000	269,899	250,739	335,609	252,133	160,729	124,399
EBITDA	USD '000	63,116	41,661	64,392	39,493	25,832	25,045
Profit from operations	USD '000	45,143	23,559	39,716	19,743	16,525	20,374
Net income	USD '000	24,317	932	7,580	4,360	11,688	15,227
Total assets	USD '000	614,944	625,068	635,821	612,752	407,986	108,915
Operational performance							
Cash provided by operating activities	USD '000	33,463	25,719	45,701	15,988	15,481	16,600
- as ratio to total debt (1)	%	16	9	11	5	10	30
- as ratio to net result	%	1.4	28.0	6.0	3.7	1.3	1.1
Working capital from operating activities	USD '000	50,193	12,811	43,991	24,663	18,954	23,095
- as ratio to long-term debt and Equity (1)	%	18	4	11	6	8	27
Liquidity and solvency							
Quick ratio		0.6	0.4	0.5	0.4	1.4	1.4
Current ratio		1.1	0.6	0.9	0.6	2.1	2.2
Equity ratio	%	43	27	39	26	37	50
Asset utilization and efficiency							
Total asset turnover (1)		0.6	0.6	0.5	0.5	0.6	1.2
Grace period granted (1)	Days	50	48	55	46	44	44
Profitability							
Return on capital (1)	%	9	3	5	5	10	20
Return on common equity (1)	%	12	(2)	4	3	15	31
Operating profit as ratio to net sales	%	17	9	12	8	10	16
Net income before taxes as ratio to net sales	%	12	0	2	0	8	15
Net income for the period as ratio to net sales	%	9	0	2	2	7	12
Market							
Market value of equity	USD '000	391,142	629,880	672,024	605,572	695,125	395,514
Price/earnings ratio, (P/E) (1)		12.6	N.A	88.7	138.9	59.5	26.0
Price/book ratio		1.5	3.7	2.7	3.7	4.5	7.2
Number of shares	Millions	423	385	423	385	385	318
Earnings per Share, (EPS) (1)	US Cent	7.39	(0.72)	1.94	1.13	3.53	4.80
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	7.38	(0.72)	1.94	1.13	3.52	4.80
Cash EPS (1)	US Cent	13.24	5.33	8.24	6.27	6.34	6.28
Diluted Cash EPS (1)	US Cent	13.24	5.33	8.24	6.27	6.33	6.27

Notes

1. Financial ratios for YTD 2008 and YTD 2007 are based on operations for the preceding 12 months.

Consolidated Income Statements
for the period 1.1. - 30.9.2008 and 1.1. - 30.9.2007

	Notes	2008 YTD	2007 YTD	2008 Q3	2007 Q3
Net sales	4	269,899	250,739	87,264	82,322
Cost of goods sold		(110,710)	(102,870)	(35,499)	(34,967)
Gross profit		159,189	147,869	51,765	47,355
Other income	7	9,482	828	2,479	311
Sales and marketing expenses		(68,946)	(63,961)	(22,059)	(20,716)
Research and development expenses		(15,903)	(14,917)	(5,100)	(5,114)
General and administrative expenses		(38,679)	(46,260)	(11,727)	(13,711)
Profit from operations		45,143	23,559	15,358	8,125
Financial income	8	225	5,576	27	5,098
Financial expenses	8	(11,981)	(28,794)	2,355	(10,937)
Profit before tax		33,387	341	17,740	2,285
Income tax	9	(9,070)	591	(4,051)	(130)
Net profit		24,317	932	13,689	2,155

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	30.09.2008	31.12.2007
Non-current assets			
Property, plant and equipment	12	33,693	35,970
Goodwill	13	331,493	342,359
Other intangible assets	14	49,540	61,797
Financial assets	16	1,150	1,835
Deferred tax asset	24	62,589	61,603
		478,465	503,564
Current assets			
Inventories	17	56,496	54,277
Accounts receivables	18	54,404	47,405
Other receivables	18	12,455	10,706
Financial assets	16	518	713
Deferred tax asset	24	1,979	3,267
Bank balances and cash		10,627	15,889
		136,479	132,257
Total assets		614,944	635,821

All amounts in thousands of USD

30 September 2008 and 31 December 2007

Equity and liabilities

	Notes	30.09.2008	31.12.2007
Equity			
Issued capital	19	172,902	173,298
Reserves	20	14,487	24,307
Retained earnings	21	76,994	52,677
		264,383	250,282
Non-current liabilities			
Borrowings	23	189,309	207,417
Deferred tax liabilities	24	28,883	28,826
Provisions	25	3,934	3,118
Financial liabilities	16	1,612	0
		223,738	239,361
Current liabilities			
Borrowings	23	73,737	91,578
Accounts payable		12,735	15,249
Defferred tax liabilities	24	4,096	1,778
Tax liabilities		1,392	3,566
Provisions	25	5,781	6,923
Other liabilities	26	29,082	27,084
		126,823	146,178
Total equity and liabilities		614,944	635,821

All amounts in thousands of USD 6

Consolidated Statements of Cash Flows for the period 1.1. - 30.9.2008 and 1.1. - 30.9.2007

	Notes	YTD 2008	YTD 2007
Cash flows from operating activities			
Profit from operations		45,143	23,559
Depreciation and amortization	12, 14	17,973	18,102
Gain on disposal of assets		44	5
Changes in operating assets and liabilities		(13,712)	(4,516)
Cash generated by operations		49,448	37,150
Interest received		197	5,504
Interest paid		(13,790)	(16,211)
Taxes paid		(2,392)	(723)
Net cash provided by operating activities		33,463	25,719
Cash flows from investing activities			
Purchase of fixed assets	12, 14	(5,870)	(4,707)
Proceeds from sale of fixed assets		937	224
Acquisition of subsidiaries		(75)	(11,809)
Changes in financial assets		549	(192)
		(4,459)	(16,484)
Cash flows from financing activities			
Repayments of short-term borrowings		(21,440)	(12,684)
Proceeds from long-term borrowings		0	15,557
Repayments of long-term borrowings		(12,126)	(14,275)
Cost due to increasing capital	19	(396)	0
		(33,962)	(11,402)
Net change in cash		(4,958)	(2,167)
Effects of foreign exchange adjustments		(304)	795
Cash at beginning of period		15,889	12,178
Cash at end of period		10,627	10,807
Additional information regarding cash flow	11		

All amounts in thousands of USD

Consolidated Statement of changes in Equity for the period ended 30 September 2008

	Share capital	Share premium	Statutory reserve	Stock option reserve	Hedging reserve	Translation reserve	Accumulated profits	Total equity
Balance at 1 January 2007	4,170	103,383	1,043	0	0	7,947	45,096	161,640
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	14,984
Issue of ordinary shares	651	65,093						65,744
Charge for the year				332				332
Net profit							7,580	7,580
Balance at 31 December 2007	4,821	168,477	1,043	332	552	22,379	52,677	250,282
Loss on hedge of a net investment in foreign operations						(4,954)		(4,954)
Loss on cash flow hedges					(1,839)			(1,839)
Translation difference of shares in foreign operations						(3,553)		(3,553)
Net gains not recognised in the income statement	0	0	0	0	(1,839)	(8,507)	0	(10,346)
Cost due to increasing capital		(396)						(396)
Charge for the period				527				527
Net profit							24,317	24,317
Balance at 30 September 2008	4,821	168,081	1,043	859	(1,287)	13,872	76,994	264,383

All amounts in thousands of USD

Notes to the Financial Statements

1. General information

Ossur hf. is a global orthopaedics company, specializing in the development, manufacturing and sales of prosthetics, braces and support 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, the Netherlands, UK, France, Australia and China in addition to the Iceland-based parent company.

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

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

2. Significant accounting policies

The condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended 31 December 2007. The condensed Consolidated Financial Statements have been prepared under the historical cost basis.

The accounting policies adopted are consistent with those followed in the preparation of the Company's Annual Financial Statements for the year ended 31 December 2007.

3. Quarterly statements

	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Net sales	87,264	92,881	89,754	84,870	82,322
Cost of goods sold	(35,499)	(38,634)	(36,577)	(38,643)	(34,967)
Gross profit	51,765	54,247	53,177	46,227	47,355
Other income	2,479	1,264	5,739	11,205	311
Sales and marketing expenses	(22,059)	(23,388)	(23,499)	(21,150)	(20,716)
Research and development expenses	(5,100)	(5,379)	(5,424)	(5,180)	(5,114)
General and administrative expenses	(11,727)	(14,000)	(12,952)	(14,945)	(13,711)
Profit from operations	15,358	12,744	17,041	16,157	8,125
Financial income	27	105	93	4,751	5,098
Financial expenses	2,355	(5,200)	(9,136)	(13,196)	(10,937)
Profit before tax	17,740	7,649	7,998	7,712	2,285
Income tax	(4,051)	(3,705)	(1,314)	(1,064)	(130)
Net profit	13,689	3,944	6,684	6,648	2,155

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.

2007 Reclassification

	Total	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net sales	0	0	0	0	0
Cost of goods sold	(6,843)	(1,602)	(1,406)	(2,225)	(1,611)
Gross profit	(6,843)	(1,602)	(1,406)	(2,225)	(1,611)
Other income	0	0	0	0	0
Sales and marketing expenses	401	442	6	208	(255)
Research and development expenses	289	79	210	58	(58)
General and administrative expenses	6,154	1,081	1,190	1,958	1,924
Profit from operations	0	0	0	0	0

All amounts in thousands of USD

4. Net sales

	YTD 2008	YTD 2007
Americas	123,673	123,140
EMEA	136,659	119,689
Asia	9,567	7,910
	269,899	250,739

Net sales are specified as follows according to currency:

	YTD 2008	YTD 2007
US Dollar, USD	127,680	130,991
Euro, EUR	90,170	75,745
British Pound, GBP	20,520	19,655
Canadian Dollar, CAD	12,152	7,590
Swedish Krona, SEK	9,551	7,854
Norwegian Krona, NOK	5,247	4,577
Icelandic Krona, ISK	1,915	1,618
Japanese Yen, JPY	1,707	1,696
Swiss Franc, CHF	957	1,013
	269,899	250,739

All amounts in thousands of USD

5. Geographical segments

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

2008	Americas YTD 2008	EMEA YTD 2008	Asia YTD 2008	Eliminations YTD 2008	Consolidated YTD 2008
Revenue					
External sales	123,673	136,659	9,567	0	269,899
Inter-segment sales	20,808	59,816	0	(80,624)	0
Total revenue	144,481	196,475	9,567	(80,624)	269,899

Inter-segment sales are calculated from production cost.

	Americas	EMEA	Asia	Eliminations	Consolidated
Result					
Segment result	20,821	21,823	2,499	0	45,143
Financial income/(expenses)					(11,756)
Profit before tax					33,387
Income tax					(9,070)
Net profit					24,317
Other information					
Capital additions	1,775	3,786	309	0	5,870
Depreciation and amortization	11,672	6,244	57	0	17,973

Balance sheet	30.09.2008	30.09.2008	30.09.2008	30.09.2008	30.09.2008
Assets					
Segment assets	407,885	923,935	3,861	(720,737)	614,944
Liabilities					
Segment liabilities	296,908	536,037	5,987	(488,371)	350,561

All amounts in thousands of USD

2007	Americas YTD 2007	EMEA YTD 2007	Asia YTD 2007	Eliminations YTD 2007	Consolidated YTD 2007
Revenue					
External sales	123,140	119,689	7,910	0	250,739
Inter-segment sales	13,264	49,068	1	(62,333)	0
Total revenue	136,404	168,757	7,911	(62,333)	250,739
Result					
Segment result	10,634	11,025	190	1,710	23,559
Financial income/(expenses)					(23,218)
Profit before tax					341
Income tax					591
Net profit					932

Other information	Americas	EMEA	Asia	Eliminations	Consolidated
Capital additions	1,689	2,828	190	0	4,707
Depreciation and amortization	12,436	5,646	20	0	18,102

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

All amounts in thousands of USD

6. 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:

	YTD 2008	YTD 2007
Prosthetics	110,874	101,101
Bracing and support	139,689	134,225
Compression Therapy (Phlebology)	14,935	13,186
Other products	4,401	2,227
	269,899	250,739

7. Other Income

Included in other income is a gain amounting to 8.8 million USD related to sale of the Advanced Wound Care product line to BSN medical GmbH, a leading global provider of wound care products.

As disclosed in note 27, the Company settled on 15 September 2008 all intellectual property litigation related to the Advanced wound Care product line.

All amounts in thousands of USD

8. Financial income / (expenses)

Interest income and (expenses) are specified as follows:

	YTD 2008	YTD 2007
Financial income:		
Bank deposit	152	257
Income from financial assets	59	385
Other interest income	14	4
	225	646
Finance expences:		
Interest on bank overdrafts and loans	(13,711)	(19,021)
Other interest expenses	(605)	(359)
	(14,316)	(19,380)
Fair value changes of derivatives	0	4,930
Exchange rate differences	2,335	(9,414)
Net finance costs	(11,757)	(23,218)

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.

9. Income tax

Income tax is specified as follows:

	YTD 2008	YTD 2007
Current tax expenses	(2,735)	(1,275)
Deferred tax revenue	(6,335)	1,866
	(9,070)	591

	YTD 2008		YTD 2007	
	Amount	%	Amount	%
Profit before taxes	33,386		341	
Income tax revenue calculated at 15%/18%	(5,008)	15%	(61)	18%
Effect of different tax rates of other jurisdictions	(697)	2%	5,721	(1678%)
Effect of nondeductable expenses/revenues	(942)	3%	(3,883)	1139%
Effect of change in tax rate	(233)	1%	(190)	56%
Effect of previously recognised tax loss reversed	0	0%	(2,087)	612%
Other changes	(2,190)	7%	1,091	(320%)
	(9,070)	27%	591	(173%)

During the period the income tax rate in Iceland changed from 18% to 15% and in Germany from 39% to 30%, effective from 1 January 2008. The effect on the Income Statement due to these changes amounts to USD 233 thousand.

All amounts in thousands of USD 15

10. Earnings per share

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

	YTD 2008	YTD 2007
Net profit	24,317	932
Total average number of shares outstanding during the period (in thousands)	422,982	384,262
Total average number of shares including potential shares (in thousands)	423,026	384,296
Basic Earnings per Share (US cent)	5.75	0.24
Diluted Earnings per Share (US cent)	5.75	0.24
Cash Earnings per Share	10.00	4.94
Diluted Cash Earnings per Share	10.00	4.94

	Q3	Q3
Net profit Q3	13,689	2,155
Total average number of shares outstanding during Q3 (in thousands)	422,982	384,922
Total average number of shares including potential shares (in thousands)	422,982	384,969
Basic Earnings per Share (US cent)	3.24	0.56
Diluted Earnings per Share (US cent)	3.24	0.56
Cash Earnings per Share	4.60	2.10
Diluted Cash Earnings per Share	4.60	2.10

11. Additional information regarding cash flow

	YTD 2008	YTD 2007
Net profit	24,317	932
Items not affecting cash	25,876	11,879
Working capital provided by operating activities	50,193	12,811
Increase in inventories	(3,733)	(3,677)
Increase in receivable	(11,443)	(827)
Increase in payables	(1,554)	17,412
Net cash provided by operating activities	33,463	25,719

12. 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	200	3,103	2,567	5,870
Exchange differences	(362)	(741)	(432)	(1,535)
Eliminated on disposal	0	(1,372)	(576)	(1,948)
Fully depreciated assets	0	(20)	(26)	(46)
At 30 September 2008	17,112	35,256	29,715	82,083
Accumulated depreciation				
At 1 January 2008	8,351	20,731	14,690	43,772
Charge for the period	405	2,495	3,751	6,651
Exchange differences	(211)	(585)	(226)	(1,022)
Eliminated on disposal	0	(568)	(398)	(966)
Fully depreciated assets	0	(20)	(25)	(45)
At 30 September 2008	8,545	22,053	17,792	48,390
Carrying Amount				
At 30 September 2008	8,567	13,203	11,923	33,693
At 31 December 2007	8,923	13,555	13,492	35,970

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

	YTD 2008	YTD 2007
Cost of goods sold	2,893	2,347
Sales and marketing expenses	480	231
Research and development expenses	196	170
General and administrative expenses	3,082	4,047
	6,651	6,795

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

13. Goodwill

	30.09.2008
Cost	
At 1 January 2008	342,359
Addition due to previous acquisitions	75
Exchange differences	(10,941)
At 30 September 2008	331,493
Carrying amount	
At 30 September 2008	331,493
At 31 December 2007	342,359

All amounts in thousands of USD

14. 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	(669)	(270)	(721)	0	(1,660)
At 30 September 2008	29,062	16,345	35,586	16,784	97,777
Amortization					
At 1 January 2008	14,097	8,451	5,568	9,524	37,640
Charge for the period	6,774	1,811	870	1,867	11,322
Exchange differences	(372)	(188)	(165)	0	(725)
At 30 September 2008	20,499	10,074	6,273	11,391	48,237
Carrying Amount					
At 30 September 2008	8,563	6,271	29,313	5,393	49,540
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:

	YTD 2008	YTD 2007
Cost of goods sold	59	341
Sales and marketing expenses	5,883	6,333
Research and development expenses	3,123	3,377
General and administrative expenses	2,257	1,256
	11,322	11,307

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

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

All amounts in thousands of USD 18

15. 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 Canada, Inc	Canada	100%	Manufacturer, sales, distribution and services
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services
Ossur UK, Holdings, Ltd	UK	100%	Holding
IMP Holdings, Ltd	UK	100%	Holding
Ossur UK, Ltd	UK	100%	Sales, distribution and services
TIM Holdings, Ltd	UK	100%	Holding
TIM, Ltd	UK	100%	Distribution and services
IMP, Ltd	UK	100%	R&D and manufacturer
Ortex, Ltd	UK	100%	Manufacturer
Ossur Holding France (SAS)	France	100%	Holding
Gibaud Pharma (EURL)	France	100%	Immaterial Operations
Gibaud (SAS)	France	100%	Manufacturer, sales, distribution and services
Derby Finances (SAS)	France	50%	No operation
Tournier Bottu (SAS)	France	100%	Manufacturing
Gibaud Espania (SA)	Spain	100%	Sales, distribution and services
Gibaud Suisse (SA)	Swiss	100%	Sales, distribution and services
Ossur Asia Pacific PTY, Ltd	Australia	100%	Sales, distribution and services
Ossur Prosth. & Rehabilit. Co, Ltd	China	100%	Manufacturer, sales, distribution and services
Gentleheal ehf	Iceland	100%	No operation

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

16. Financial assets (liabilities)

	Current		Non-current	
	30.09.2008	31.12.2007	30.09.2008	31.12.2007
Derivatives designated and effective as hedging instruments carried at fair value				
Interest rate swaps	0	0	(1,612)	552
Financial assets carried at fair value through profit or loss (FVTPL)				
Non-derivative financial assets	0	0	1,150	1,283
Held for trading non-derivative financial assets	518	713	0	0
	518	713	1,150	1,283
	518	713	(462)	1,835

All amounts in thousands of USD 19

17. Inventories

	30.09.2008	31.12.2007
Raw material	17,745	18,151
Work in progress	5,546	4,497
Finished goods	33,205	31,629
	56,496	54,277

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 11.181 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2.597 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

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

18. Accounts and other receivables

	30.09.2008	31.12.2007
Nominal value	58,830	51,915
Allowances for doubtful accounts	(3,710)	(3,794)
Allowances for sales return	(716)	(716)
	54,404	47,405

The average credit period on sales of goods is 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.

Movement in the allowance for doubtful accounts

	YTD 2008	YTD 2007
At 1 January	(3,794)	(1,157)
Impairment losses recognised on receivables	(450)	(2,157)
Amounts written off as uncollectible	463	(421)
Exchange rate difference	71	(59)
At 30 September	(3,710)	(3,794)

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

Other receivables

	30.09.2008	31.12.2007
VAT refundable	1,337	1,228
Prepaid expenses	6,204	5,257
Other	4,914	4,221
	12,455	10,706

All amounts in thousands of USD

19. Issued capital

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

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

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

Changes in share capital are as follows:	Share capital	Share premium	Issued capital
Balance as of 1 January 2007	4,170	103,383	107,553
Issue of ordinary shares	651	65,093	65,744
Share capital as of 1 January 2008	4,821	168,477	173,298
Cost due to increasing capital	0	(396)	(396)
Balance at 30 September 2008	4,821	168,081	172,902

20. Reserves

	Statutory reserve	Hedging reserve	Share option reserve	Translation reserve	Total reserves
Balance at 1 January 2007	1,043	0	0	7,947	8,990
Gain on cash flow hedges		552			552
Charge for the period			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		(1,839)			(1,839)
Charge for the period			527		527
Loss on hedge of a net investment				(4,954)	(4,954)
Transl. diff. of foreign operations				(3,554)	(3,554)
Balance at 30 September 2008	1,043	(1,287)	859	13,872	14,487

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.

21. Retained earnings

	Retained earnings
At 1 January 2007	45,096
Net profit	7,580
At 1 January 2008	52,677
Net profit	24,317
At 30 September 2008	76,994

22. 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 2,600,000 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 0.2 million is recognised in the Income Statement for the period.

At the annual meeting it was also agreed to change the strike price of previously issued stock option ageements 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 0.3 million is recognised in the Income Statement for the period.

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 5 February 2007	1,540,000	05.02.07	01.12.11	92.3	109.5
Issued 8 February 2007	1,250,000	05.02.07	01.12.11	92.3	109.0
Issued 23 February 2008	2,600,000	23.02.08	23.02.12	91.2	93.1
Issued 15 July 2008	500,000	15.07.08	15.07.12	90.9	95.8

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

	1.1-30.09 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	92.30
Granted during the period	3,100	91.15	0	0.00
Forfeited during the period	(308)	92.30	0	0.00
Outstanding at the end of the period	5,890	91.70	3,098	92.30

23. Borrowings

	Current		Non - current	
Secured - at amortised cost	30.09.2008	31.12.2007	30.09.2008	31.12.2007
Bank overdrafts	3	1,444	0	0
Loans in USD	13,023	9,889	119,478	130,218
Loans in EUR	7,005	5,878	69,777	77,099
Other borrowings	68	307	54	100
Bridge loan	53,638	74,060	0	0
At end of period	73,737	91,578	189,309	207,417

Ossur uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of USD 140 million and of EUR 48,6 million have been made to swap floating interest rates to weighted average fixed interest rates of 5.99 including margin for periods up until 2012.

24. Deferred tax asset / (liability)

	30.09.2008	31.12.2007
At 1 January	34,266	30,281
Arising on acquisition of a subsidiary	0	(879)
Calculated tax for the period	(9,070)	(473)
Income tax payable for the period	2,757	5,548
Exchange differences	3,636	(211)
At 30 September /31 December	31,589	34,266

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

	Assets	Liabilities	Net
Goodwill	47,803	0	47,803
Intangible assets	0	(31,535)	(31,535)
Operating fixed assets	1,370	(714)	656
Tax loss carry forward	4,472	0	4,472
Inventories	3,243	0	3,243
Current liabilities	5,258	(1,802)	3,456
Other	3,761	(267)	3,494
Total tax assets/liabilities	65,907	(34,318)	31,589
Tax asset and liabilities offseting	(1,339)	1,339	0
Total	64,568	(32,979)	31,589

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

Non Current deferred tax asset / liabilities	62,589	(28,883)
Current deferred tax asset / liabilities	1,979	(4,096)
	64,568	(32,979)

25. Provisions

	Current		Non-current	
	30.09.2008	31.12.2007	30.09.2008	31.12.2007
Warranty (i)	1,521	1,847	3,672	2,347
Restructuring (ii)	3,255	3,788	0	0
Other	1,005	1,288	262	771
	5,781	6,923	3,934	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.

All amounts in thousands of USD

	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January 2008	4,194	3,788	2,059	10,041
Additional provision recognised	1,774	0	(740)	1,034
Utilization of provision	(775)	(490)	0	(1,265)
Exchange differences	0	(43)	(52)	(95)
At 30 September 2008	5,193	3,255	1,267	9,715

26. Other liabilities

	30.09.2008	31.12.2007
Accrued expenses	8,613	6,019
Accrued salaries and related expenses	12,674	14,239
Royalties	1,365	1,296
V.a.t.	879	2,399
Other	5,550	3,131
	29,082	27,084

27. 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.

On 31 March 2008, Ossur divested its Advanced Wound Care product line to BSN Medical GmbH. In accordance with the terms of the transaction, Ossur retained responsibility for the intellectual property litigation related to the product line. However, on 15th of September 2008, Ossur and Mölnlycke Health Care AB, together with Mölnlycke Health Care US LLC, entered into a Confidential Settlement Agreement whereby the parties released the other from all claims related to the product line and withdrew their legal actions. The terms of the Confidential Settlement Agreement do not affect Ossur's operational results of the third quarter of 2008 since part of the transaction value was reserved for covering litigation expense exposure.

28. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on 27 October 2008.

All amounts in thousands of USD