Ossur hf.

Consolidated Financial Statements

June 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 June 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 182.6 million. The net profit amounted to USD 10.6 million and according to the Balance Sheets the total assets of the Ossur Consolidation amounted to USD 645.9 million at the end of period, liabilities were 377.0 million, and equity was 268.9 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 June 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 June 2008 and operating performance of the period ended 30 June 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 June 2008 and confirmed with their signatures.

Reykjavik, 28 July 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	182,635	168,417	335,609	252,133	160,729	124,399
EBITDA	USD '000	41,988	27,593	64,392	39,493	25,832	25,045
Profit from operations	USD '000	29,785	15,434	39,716	19,743	16,525	20,374
Net income	USD '000	10,628	(1,223)	7,580	4,360	11,688	15,227
Total assets	USD '000	645,924	634,940	635,821	612,752	407,986	108,915
Operational performance							
Cash provided by operating activities	USD '000	21,654	13,395	45,701	15,988	15,481	16,600
- as ratio to total debt (1)	%	13	6	11	5	10	30
- as ratio to net result	%	2.0	N.A	6.0	3.7	1.3	1.1
Working capital from operating activities	USD '000	32,857	15,016	43,991	24,663	18,954	23,095
- as ratio to long-term debt and Equity (1)	%	14	6	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	%	42	26	39	26	37	50
Asset utilization and efficiency							
Total asset turnover (1)		0.5	0.5	0.5	0.5	0.6	1.2
Grace period granted (1)	Days	54	52	55	46	44	44
Profitability							
Return on capital (1)	%	7	3	5	5	10	20
Return on common equity (1)	%	8	0	4	3	15	31
Operating profit as ratio to net sales	%	16	9	12	8	10	16
Net income before taxes as ratio to net sales	%	9	(1)	2	0	8	15
Net income for the period as ratio to net sales	%	6	(1)	2	2	7	12
Market							
Market value of equity	USD '000	498,463	655,586	672,024	605,572	695,125	395,514
Price/earnings ratio, (P/E) (1)		25.7	1,466.6	88.7	138.9	59.5	26.0
Price/book ratio		1.9	3.9	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	4.74	0.26	1.94	1.13	3.53	4.80
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	4.73	0.26	1.94	1.13	3.52	4.80
Cash EPS (1)	US Cent	9.85	6.09	8.24	6.27	6.34	6.28
Diluted Cash EPS (1)	US Cent	9.84	6.09	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.

Report on Review of Financial Information

To the Board of Directors and shareholders of Ossur hf.

Introduction

We have reviewed the accompanying balance sheet of Ossur hf. as of June 30, 2008 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this financial information in accordance with IFRS (International Financial Reporting Standards). Our responsibility is to express a conclusion on this financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not give a true and fair view of the financial position of the entity as at June 30, 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with IFRS, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards.

Kopavogur, 28 July 2008

Deloitte hf.

Sigurdur Pall Hauksson
State authorized public accountant

Thorsteinn Petur Gudjonsson
State authorized public accountant

Consolidated Income Statements
for the period 1.1. - 30.6.2008 and 1.1. - 30.6.2007

	Notes	2008 YTD	2007 YTD	2008 Q2	2007 Q2
Net sales	4	182,635	168,417	92,881	88,037
Cost of goods sold		(75,211)	(73,145)	(38,634)	(37,141)
Gross profit		107,424	95,272	54,247	50,896
Other income	7	7,003	517	1,264	197
Sales and marketing expenses		(46,887)	(43,286)	(23,388)	(21,053)
Research and development expenses		(10,803)	(9,593)	(5,379)	(4,541)
General and administrative expenses		(26,952)	(27,476)	(14,000)	(14,124)
Profit from operations		29,785	15,434	12,744	11,376
Financial income	8	198	581	105	292
Financial expenses	8	(14,336)	(17,959)	(5,200)	(9,818)
Profit (loss) before tax		15,647	(1,944)	7,649	1,850
Income tax	9	(5,019)	721	(3,705)	(367)
Net profit (loss)		10,628	(1,223)	3,944	1,483
Earnings per Share	10				
Basic Earnings per Share		2.51	(0.32)	0.93	0.39
Diluted Earnings per Share		2.51	(0.32)	0.93	0.39

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	30.06.2008	31.12.2007
Non-current assets			
Property, plant and equipment	12	35,396	35,970
Goodwill	13	346,882	342,359
Other intangible assets	14	56,389	61,797
Financial assets	16	1,802	1,835
Deferred tax asset	24	63,419	61,603
		503,888	503,564
Current assets			
Inventories	17	58,490	54,277
Accounts receivables	18	57,435	47,405
Other receivables	18	12,718	10,706
Financial assets	16	432	713
Deferred tax asset	24	1,751	3,267
Bank balances and cash		11,210	15,889
		142,036	132,257
Total assets		645,924	635,821

All amounts in thousands of USD

Equity and liabilities

	Notes	30.06.2008	31.12.2007
Equity			
Issued capital	19	172,902	173,298
Reserves	20	32,724	24,307
Retained earnings	21	63,305	52,677
		268,931	250,282
Non-current liabilities			
Borrowings	23	212,939	207,417
Deferred tax liabilities	24	28,276	28,826
Provisions	25	3,147	3,118
		244,362	239,361
Current liabilities			
Borrowings	23	74,075	91,578
Accounts payable		15,257	15,249
Defferred tax liabilities	24	2,639	1,778
Tax liabilities		2,356	3,566
Provisions	25	7,025	6,923
Other liabilities	26	31,279	27,084
		132,631	146,178
Total equity and liabilities		645,924	635,821

All amounts in thousands of USD

Consolidated Statements of Cash Flows for the period 1.1. - 30.6.2008 and 1.1. - 30.6.2007

	Notes	YTD 2008	YTD 2007
Cash flows from operating activities			
Profit from operations		29,785	15,434
Depreciation and amortization	12, 14	12,203	12,159
Gain (loss) on disposal of assets		41	0
Changes in operating assets and liabilities		(10,141)	(602)
Cash generated by operations		31,888	26,991
Interest received		1,536	33
Interest paid		(9,473)	(13,015)
Taxes paid		(2,297)	(614)
Net cash provided by operating activities		21,654	13,395
Cash flows from investing activities			
Purchase of fixed assets	12, 14	(3,865)	(3,578)
Proceeds from sale of fixed assets		958	181
Acquisition of subsidiaries		0	(11,611)
Changes in financial assets		13	(266)
		(2,894)	(15,274)
Cash flows from financing activities			
Proceeds from short-term borrowings		0	5,850
Repayments of short-term borrowings		(15,595)	0
Proceeds from long-term borrowings		0	9,690
Repayments of long-term borrowings		(8,052)	(8,630)
Cost due to increasing capital	19	(396)	0
		(24,043)	6,910
Net change in cash		(5,283)	5,031
Effects of foreign exchange adjustments		604	306
Cash at beginning of period		15,889	12,178
Cash at end of period		11,210	17,516
Additional information regarding cash flow	11		

All amounts in thousands of USD 8

Consolidated Statement of changes in Equity for the period ended 30 June 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
Gain on hedge of a net investment in foreign operations						5,899		5,899
Loss on cash flow hedges					(332)			(332)
Translation difference of shares in foreign operations						2,544		2,544
Net gains not recognised in the income statement	0	0	0	0	(332)	8,443	0	8,111
Cost due to increasing capital		(396)						(396)
Charge for the period				307				307
Net profit							10,628	10,628
Balance at 30 June 2008	4,821	168,081	1,043	639	220	30,822	63,305	268,931

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

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net sales	92,881	89,754	84,870	82,322	88,037
Cost of goods sold	(38,634)	(36,577)	(38,643)	(34,967)	(37,141)
Gross profit	54,247	53,177	46,227	47,355	50,896
Other income	1,264	5,739	11,205	311	197
Sales and marketing expenses	(23,388)	(23,499)	(21,150)	(20,716)	(21,053)
Research and development expenses	(5,379)	(5,424)	(5,180)	(5,114)	(4,541)
General and administrative expenses	(14,000)	(12,952)	(14,945)	(13,711)	(14,124)
Profit from operations	12,744	17,041	16,157	8,125	11,376
Financial income	105	93	4,751	5,098	292
Financial expenses	(5,200)	(9,136)	(13,196)	(10,937)	(9,818)
Profit before tax	7,649	7,998	7,712	2,286	1,850
Income tax	(3,705)	(1,314)	(1,064)	(130)	(367)
Net profit	3,944	6,684	6,648	2,156	1,483

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

4. Net sales

	YTD 2008	YTD 2007
Americas	79,809	80,837
EMEA	96,802	82,785
Asia	6,024	4,795
	182,635	168,417

All amounts in thousands of USD 11

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	79,809	96,802	6,024	0	182,635
Inter-segment sales	13,813	40,898	0	(54,711)	0
Total revenue	93,622	137,700	6,024	(54,711)	182,635

Inter-segment sales are calculated from production cost.

Result					
Segment result	15,929	12,387	1,469	0	29,785
Financial income/(expenses)					(14,138)
Profit before tax					15,647
Income tax					(5,019)
Net profit					10,628
Other information					
Capital additions	1,337	2,471	57	0	3,865
Depreciation and amortization	7,975	4,202	26	0	12,203

Balance sheet	30.06.2008	30.06.2008	30.06.2008	30.06.2008	30.06.2008
Assets					
Segment assets	407,249	985,148	3,914	(750,387)	645,924
Liabilities					
Segment liabilities	297,314	593,237	5,130	(518,688)	376,993

2007	Americas YTD 2007	EMEA YTD 2007	Asia YTD 2007	Eliminations YTD 2007	Consolidated YTD 2007
Revenue					
External sales	80,837	82,784	4,796	0	168,417
Inter-segment sales	8,699	32,274	1	(40,974)	0
Total revenue	89,536	115,058	4,797	(40,974)	168,417
Result					
Segment result	7,890	7,395	149	0	15,434
Financial income/(expenses)					(17,378)
Loss before tax					(1,944)
Income tax					721
Net loss					(1,223)

All amounts in thousands of USD

	Americas	EMEA	Asia	Eliminations	Consolidated
Other information					
Capital additions	1,387	2,106	85	0	3,578
Depreciation and amortization	8,302	3,844	13	0	12,159

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

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	73,256	65,293
Bracing and support	95,165	90,433
Compression Therapy (Phlebology)	11,145	10,112
Other products	3,069	2,579
	182,635	168,417

7. Other Income

Included in other income is a gain amounting to 6.5 million USD related to sale of the Advanced Wound Care product line to BSN medical GmbH, a leading global provider of wound care products. The transaction, which was closed 31 March 2008, is valued at USD 11 million. Subject to certain conditions, the transaction value could further increase by USD 6 million.

As disclosed in note 28, the Company is involved in intellectual property litigation related to the Advanced Wound Care product line. The Company will retain responsibility for these. Part of the transaction value is reserved for covering future litigation expense exposure.

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	133	196
Income from financial assets	57	370
Other interest income	8	15
	198	581
Finance costs:		
Interest on bank overdrafts and loans	(9,247)	(12,153)
Other interest expenses	(390)	(329)
	(9,637)	(12,482)
Exchange rate differences	(4,699)	(5,477)
	(14,336)	(17,959)

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	(2,486)	(979)
Deferred tax revenue	(2,533)	1,700
	(5,019)	721

	YTD 2008		YTD 2007	
	Amount	%	Amount	%
Profit (loss) before taxes	15,647		(1,944)	
Income tax revenue calculated at 15%/18%	(2,347)	15%	350	18%
Effect of different tax rates of other jurisdictions	(286)	2%	1,969	101%
Effect of nondeductable expenses/revenues	(1,025)	7%	(33)	(2%)
Effect of change in tax rate	(882)	6%	87	4%
Effect of previously recognised tax loss reversed	0	0%	(1,652)	(85%)
Other changes	(479)	3%	0	0%
	(5,019)	32%	721	37%

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 882 thousand.

All amounts in thousands of USD 14

Notes to the Financial Statements

10. Earnings per share

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

	YTD 2008	YTD 2007
Net profit (loss)	10,628	(1,223)
Total average number of shares outstanding during the period (in thousands)	422,982	384,922
Total average number of shares including potential shares (in thousands)	423,415	385,011
Basic Earnings per Share (US cent)	2.51	(0.32)
Diluted Earnings per Share (US cent)	2.51	(0.32)
Cash Earnings per Share	5.40	2.84
Diluted Cash Earnings per Share	5.39	2.84

	Q2 YTD 2008	Q2 YTD 2007
Net profit Q2	3,944	1,483
Total average number of shares outstanding during Q2 (in thousands)	422,982	384,922
Total average number of shares including potential shares (in thousands)	423,160	385,011
Basic Earnings per Share (US cent)	0.93	0.39
Diluted Earnings per Share (US cent)	0.93	0.39
Cash Earnings per Share	2.42	1.94
Diluted Cash Earnings per Share	2.42	1.94

11. Additional information regarding cash flow

	YTD 2008	YTD 2007
Net profit (loss)	10,628	(1,223)
Items not affecting cash	22,229	16,239
Working capital provided by operating activities	32,857	15,016
Increase in inventories	(2,338)	(1,093)
Increase in receivable	(12,252)	(4,832)
Increase in payables	3,387	4,304
Net cash provided by operating activities	21,654	13,395

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	0	2,257	1,608	3,865
Exchange differences	1,059	886	371	2,316
Eliminated on disposal	0	(1,372)	(561)	(1,933)
Fully depreciated assets	0	(20)	(26)	(46)
At 30 June 2008	18,333	36,037	29,574	83,944
Accumulated depreciation				
At 1 January 2008	8,351	20,731	14,690	43,772
Charge for the period	288	2,367	1,909	4,564
Exchange differences	577	475	157	1,209
Eliminated on disposal	0	(568)	(383)	(951)
Fully depreciated assets	0	(20)	(26)	(46)
At 30 June 2008	9,216	22,985	16,347	48,548
Carrying Amount				
At 30 June 2008	9,117	13,052	13,227	35,396
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	1,958	1,635
Sales and marketing expenses	328	143
Research and development expenses	122	120
General and administrative expenses	2,156	2,672
	4,564	4,570

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

	30.06.2008
Cost	
At 1 January 2008	342,359
Addition due to previous acquisitions	181
Exchange differences	4,342
At 30 June 2008	346,882
Carrying amount	
At 30 June 2008	346,882
At 31 December 2007	342,359

All amounts in thousands of USD 16

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	1,203	33	1,306	0	2,542
At 30 June 2008	30,934	16,648	37,613	16,784	101,979
Amortization					
At 1 January 2008	14,097	8,451	5,568	9,524	37,640
Charge for the period	4,074	1,213	1,027	1,325	7,639
Exchange differences	222	18	71	0	311
At 30 June 2008	18,393	9,682	6,666	10,849	45,590
Carrying Amount					
At 30 June 2008	12,541	6,966	30,947	5,935	56,389
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	334	300
Sales and marketing expenses	3,479	4,267
Research and development expenses	2,164	2,250
General and administrative expenses	1,662	772
	7,639	7,589

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 17

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%	Manufacturer and sales

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

16. Financial assets

	Current		Non-current	
	30.06.2008	31.12.2007	30.06.2008	31.12.2007
Derivatives designated and effective as hedging instruments carried at fair value				
Interest rate swaps	0	0	220	552
Financial assets carried at fair value through profit or loss (FVTPL)				
Non-derivative financial assets	0	0	1,582	1,283
Held for trading non-derivative financial assets	432	713	0	0
	432	713	1,582	1,283
	432	713	1,802	1,835

All amounts in thousands of USD

17. Inventories

	30.06.2008	31.12.2007
Raw material	18,541	18,151
Work in progress	5,449	4,497
Finished goods	34,500	31,629
	58,490	54,277

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 11,030 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,567 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

	30.06.2008	31.12.2007
Nominal value	61,884	51,915
Allowances for doubtful accounts	(3,733)	(3,794)
Allowances for sales return	(716)	(716)
	57,435	47,405

The average credit period on sales of goods is 54 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	(183)	(2,157)
Amounts written off as uncollectible	287	(421)
Exchange rate difference	(43)	(59)
At 30 June	(3,733)	(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

	30.06.2008	31.12.2007
VAT refundable	1,564	1,228
Prepaid expenses	7,421	5,257
Other	3,733	4,221
	12,718	10,706

All amounts in thousands of USD 19

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 June 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		(332)			(332)
Charge for the period			307		307
Gain on hedge of a net investment				5,899	5,899
Transl. diff. of foreign operations				2,544	2,544
Balance at 30 June 2008	1,043	220	639	30,821	32,724

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	10,628
At 30 June 2008	63,305

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 share have been granted to managers. These options will vest during the month of February 2012. The contract rate is ISK 91.2 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 0.1 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 CEO and the six members of the Executive Committee from 113.4 to 92.3. The total number of shares to be provided is 3,098,000 or 0.74% of the Company´s current outstanding stock capital. These options will vest during the month of December 2011. Estimated costs due to the stock option contracts are USD 2.0 million which will be expensed over the next four years. An expense of USD 0.2 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	1,848,000	2/5/2007	12/1/2011	92.3	109.5
Issued 8 February 2007	1,250,000	2/5/2007	12/1/2011	92.3	109.0
Issued 23 February 2008	2,600,000	2/23/2008	2/23/2012	91.2	93.1

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.

	1.1-30.06 2008		1.1-30.06 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	2,600	91.20	0	0.00
Outstanding at the end of the period...............................	5,698	91.80	3,098	92.30

23. Borrowings

	Current		Non - current	
Secured - at amortised cost	30.06.2008	31.12.2007	30.06.2008	31.12.2007
Bank overdrafts..	51	1,444	0	0
Loans in USD..	4,948	9,889	129,452	130,218
Loans in EUR..	3,445	5,878	83,420	77,099
Other borrowings..	104	307	0	100
Bridge loan..	65,527	74,060	67	0
At end of period..	74,075	91,578	212,939	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)

	30.06.2008	31.12.2007
At 1 January	34,266	30,281
Arising on acquisition of a subsidiary	0	(879)
Calculated tax for the period	(5,019)	(473)
Income tax payable for the period	2,493	5,548
Exchange differences	2,515	(211)
At 30 June /31 December	34,255	34,266

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

	Assets	Liabilities	Net
Goodwill	48,134	0	48,134
Intangible assets	1,187	(31,814)	(30,627)
Operating fixed assets	1,356	(712)	644
Tax loss carry forward	4,863	0	4,863
Inventories	3,216	0	3,216
Current liabilities	5,256	0	5,256
Other	3,204	(435)	2,769
Total tax assets/liabilities	67,216	(32,961)	34,255
Tax asset and liabilities offseting	(2,046)	2,046	0
Total	65,170	(30,915)	34,255

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

Non Current deferred tax asset / liabilities	63,419	(28,276)
Current deferred tax asset / liabilities	1,751	(2,639)
	65,170	(30,915)

25. Provisions

	Current		Non-current	
	30.06.2008	31.12.2007	30.06.2008	31.12.2007
Warranty (i)	1,762	1,847	2,857	2,347
Restructuring (ii)	4,053	3,788	0	0
Other	1,210	1,288	290	771
	7,025	6,923	3,147	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	904	539	(641)	802
Utilization of provision	(479)	(389)	0	(868)
Exchange differences	0	115	82	197
At 30 June 2008	4,619	4,053	1,500	10,172

26. Other liabilities

	30.06.2008	31.12.2007
Accrued expenses	10,128	6,019
Accrued salaries and related expenses	14,975	14,239
Royalties	1,190	1,296
V.a.t.	837	2,399
Other	4,149	3,131
	31,279	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.

Following a patent infringement challenge by Mölnlycke Health Care when Ossur began its marketing efforts of Gentleheal® wound care product, Ossur filed a Declaration of Non-Infringement legal action in May, 2004 against Mölnlycke in Stockholm, requesting the Court to determine that the Gentleheal product did not infringe Mölnlycke's European patent. Mölnlycke has denied Ossur's claim. The case is litigated in Swedish court, but the scope includes all seven jurisdictions where the patent is valid i.e. Sweden, Germany, Italy, Spain, France, Belgium and United Kingdom. After the introduction of Gentleheal at the tradeshow in Atlanta, GA in April 2006, Mölnlycke filed a complaint against Ossur's distributor Medline and Ossur North America, alleging infringement of their US patent, belonging to the same patent family as the European patent that is the object of the Swedish litigation. On 21 June, 2007, the Court issued a Claim Construction Order. At the date of this report, fact discovery is largely concluded. The parties are currently in the expert discovery stages of the litigation. On 31 March 2008, Ossur divested its Advanced Wound Care product line to BSN medical GmbH in transaction valued at USD 11 million. Subject to certain conditions, the transaction value could further increase by up to USD 6 million. Ossur will retain responsibility for the existing intellectual property litigation related to the product line. Part of the transaction value is reserved for covering future litigation expense exposure.

Both cases are in progress.

28. Approval of the Financial Statements

The Financial Statements were approved by the board of directors and authorised for issue on 28 July 2008.

All amounts in thousands of USD