

Ossur hf.

Consolidated Financial Statements

June 30th 2007

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

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Statement 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 30 June 2007, the operating results for the period 1 January to 30 June 2007, and financial developments during that period. Ossur Financial Statements are prepared in accordance with IFRS.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 June 2007 with their signatures.

Reykjavik, 30 July 2007

Board of Directors

Niels Jacobsen
Chairman of the Board

Ossur Kristinsson

Kristjan T. Ragnarsson

Thordur Magnusson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

| | | YTD 2007 | YTD 2006 | 2006 | 2005 | 2004 | 2003 |
|--|----------|----------|----------|---------|---------|---------|---------|
| Growth | | | | | | | |
| Net sales | USD '000 | 168,417 | 125,534 | 252,133 | 160,729 | 124,399 | 94,467 |
| EBITDA | USD '000 | 27,593 | 21,738 | 39,493 | 25,832 | 25,045 | 9,428 |
| Profit from operations | USD '000 | 15,434 | 12,238 | 19,743 | 16,525 | 20,374 | 6,112 |
| Net income | USD '000 | (1,223) | 2,690 | 4,360 | 11,688 | 15,227 | 4,661 |
| Total assets | USD '000 | 634,940 | 447,286 | 612,752 | 407,986 | 108,915 | 102,126 |
| Operational performance | | | | | | | |
| Cash provided by operating activities | USD '000 | 13,395 | 6,805 | 15,988 | 15,481 | 16,600 | 10,383 |
| - as ratio to total debt ⁽¹⁾ | % | 6 | 9 | 5 | 10 | 30 | 23 |
| - as ratio to net result | | N.A | 2.5 | 3.7 | 1.3 | 1.1 | 2.2 |
| Working capital from operating activities | USD '000 | 15,016 | 14,513 | 24,663 | 18,954 | 23,095 | 8,774 |
| - as ratio to long-term debt and stockh. Equity ⁽¹⁾ | % | 6 | 9 | 6 | 8 | 27 | 13 |
| Liquidity and solvency | | | | | | | |
| Quick ratio | | 0.4 | 1.0 | 0.4 | 1.4 | 1.4 | 1.2 |
| Current ratio | | 0.6 | 1.5 | 0.6 | 2.1 | 2.2 | 1.8 |
| Equity ratio | % | 26 | 36 | 26 | 37 | 50 | 43 |
| Asset utilization and efficiency | | | | | | | |
| Total asset turnover ⁽¹⁾ | | 0.5 | 0.8 | 0.5 | 0.6 | 1.2 | 1.1 |
| Grace period granted ⁽¹⁾ | Days | 52 | 41 | 46 | 44 | 44 | 47 |
| Profitability | | | | | | | |
| Return on capital ⁽¹⁾ | % | 3 | 6 | 5 | 10 | 20 | 9 |
| Return on common equity ⁽¹⁾ | % | 0 | 6 | 3 | 15 | 31 | 11 |
| Operating profit as ratio to net sales | % | 9 | 10 | 8 | 10 | 16 | 6 |
| Net income before taxes as ratio to net sales | % | (1) | 1 | 0 | 8 | 15 | 6 |
| Net income for the period as ratio to net sales | % | (1) | 2 | 2 | 7 | 12 | 5 |
| Market | | | | | | | |
| Market value of equity | USD '000 | 655,586 | 545,249 | 605,572 | 695,125 | 395,514 | 201,237 |
| Price/earnings ratio, (P/E) ⁽¹⁾ | | 1,466.6 | 82.7 | 138.9 | 59.5 | 26.0 | 43.2 |
| Price/book ratio | | 3.9 | 3.4 | 3.7 | 4.5 | 7.2 | 4.6 |
| Number of shares | Millions | 385 | 385 | 385 | 385 | 318 | 328 |
| Earnings per Share, (EPS) ⁽¹⁾ | US Cent | 0.26 | 1.80 | 1.13 | 3.53 | 4.80 | 1.45 |
| Diluted Earnings per Share, (Diluted EPS) ⁽¹⁾ | US Cent | 0.26 | 1.80 | 1.13 | 3.52 | 4.80 | 1.44 |
| Cash EPS ⁽¹⁾ | US Cent | 6.09 | 6.28 | 6.27 | 6.34 | 6.28 | 2.48 |
| Diluted Cash EPS ⁽¹⁾ | US Cent | 6.09 | 6.27 | 6.27 | 6.33 | 6.27 | 2.47 |

Notes

1. Financial ratios for YTD 2007 and YTD 2006 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, 2007 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, 2007, 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.

Reykjavik, 30 July 2007

Deloitte hf.

Sigurður Pall Hauksson
State authorized public accountant

Thorvardur Gunnarsson
State authorized public accountant

Consolidated Income Statements

for the periods 1.1. - 30.6.2007 and 1.1. - 30.6.2006

| | Notes | YTD 2007 | YTD 2006 | 2007 Q2 | 2006 Q2 |
|---|-------|-----------------------|---------------------|---------------------|---------------------|
| Net sales | 4 | 168,417 | 125,534 | 88,037 | 65,500 |
| Cost of goods sold | | <u>(69,309)</u> | <u>(50,865)</u> | <u>(34,916)</u> | <u>(26,787)</u> |
| Gross profit | | 99,108 | 74,669 | 53,121 | 38,713 |
| Other income | | 517 | 123 | 197 | 69 |
| Sales and marketing expenses | | (43,239) | (33,332) | (21,261) | (17,323) |
| Research and development expenses | | (9,593) | (8,927) | (4,599) | (4,228) |
| General and administrative expenses | | (31,359) | (17,295) | (16,082) | (8,753) |
| Restructuring expenses | | <u>0</u> | <u>(3,000)</u> | <u>0</u> | <u>0</u> |
| Profit from operations | | 15,434 | 12,238 | 11,376 | 8,478 |
| Financial income /(expenses) | 7 | <u>(17,378)</u> | <u>(10,908)</u> | <u>(9,526)</u> | <u>(5,987)</u> |
| (Loss) / profit before tax | | (1,944) | 1,330 | 1,850 | 2,491 |
| Income tax | 8 | <u>721</u> | <u>1,360</u> | <u>(367)</u> | <u>(372)</u> |
| Net (Loss) / Profit | | <u><u>(1,223)</u></u> | <u><u>2,690</u></u> | <u><u>1,483</u></u> | <u><u>2,119</u></u> |
| Earnings per Share | 9 | | | | |
| Basic Earnings per Share | | <u>(0.32)</u> | <u>0.70</u> | <u>0.39</u> | <u>0.55</u> |
| Diluted Earnings per Share | | <u>(0.32)</u> | <u>0.70</u> | <u>0.39</u> | <u>0.55</u> |

Consolidated Balance Sheets

| Assets | Notes | 30.6.2007 | 31.12.2006 |
|-------------------------------------|-------|-----------------------|-----------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 36,165 | 37,074 |
| Goodwill | 12 | 331,051 | 316,593 |
| Other intangible assets | 13 | 63,549 | 69,959 |
| Financial assets | 15 | 2,569 | 2,208 |
| Deferred tax asset | 25 | 62,465 | 63,485 |
| | | <u>495,799</u> | <u>489,319</u> |
| Current assets | | | |
| Inventories | 16 | 49,676 | 47,376 |
| Accounts receivables | 17 | 60,174 | 49,147 |
| Other receivables | 17 | 11,775 | 14,732 |
| Bank balances and cash | 17 | 17,516 | 12,178 |
| | | <u>139,141</u> | <u>123,433</u> |
| | | | |
| Total assets | | <u><u>634,940</u></u> | <u><u>612,752</u></u> |

30 June 2007 and 31 December 2006

Equity and liabilities

| | Notes | 30.6.2007 | 31.12.2006 |
|---|-------|-----------------------|-----------------------|
| Equity | | | |
| Share capital | 18 | 4,170 | 4,170 |
| Capital reserves | 19 | 104,426 | 104,426 |
| Translation reserves | 20 | 13,878 | 7,947 |
| Accumulated profits | 21 | 43,873 | 45,096 |
| Total equity | | <u>166,347</u> | <u>161,639</u> |
| Long-term liabilities | | | |
| Loans from credit institutions | 23 | 208,366 | 198,615 |
| Other long-term liabilities | 24 | 1,860 | 2,719 |
| Deferred tax liabilities | 25 | 30,583 | 33,204 |
| | | <u>240,809</u> | <u>234,538</u> |
| Current liabilities | | | |
| Long-term liabilities - due within one year | 26 | 16,022 | 15,331 |
| Accounts payable | | 13,366 | 22,132 |
| Bank loans | 27 | 162,658 | 148,484 |
| Tax liabilities | | 1,191 | 2,301 |
| Other current liabilities | | 24,021 | 17,375 |
| Provisions | 28 | 10,526 | 10,952 |
| | | <u>227,784</u> | <u>216,575</u> |
| Total equity and liabilities | | <u><u>634,940</u></u> | <u><u>612,752</u></u> |

Consolidated Statements of Cash Flows

for the periods 1.1. - 30.6.2007 and 1.1. - 30.6.2006

| | Notes | YTD 2007 | YTD 2006 |
|--|--------|----------------------|---------------------|
| Cash flows from operating activities | | | |
| Profit from operations | | 15,434 | 12,238 |
| Depreciation and amortization | 11, 13 | 12,159 | 9,500 |
| Changes in operating assets and liabilities | | <u>(602)</u> | <u>(4,593)</u> |
| Cash generated by operations | | 26,991 | 17,145 |
| Interest received | | 33 | 68 |
| Interest paid | | (13,015) | (7,316) |
| Taxes paid | | <u>(614)</u> | <u>(3,092)</u> |
| Net cash provided by operating activities | | <u>13,395</u> | <u>6,805</u> |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | 11, 13 | (3,578) | (4,455) |
| Proceeds from sale of fixed assets | | 181 | 144 |
| Acquisition of subsidiaries | | (11,611) | (39,585) |
| Changes in financial assets | | <u>(266)</u> | <u>(125)</u> |
| | | <u>(15,274)</u> | <u>(44,021)</u> |
| Cash flows from financing activities | | | |
| Short-term loans | | 5,850 | 6,340 |
| Borrowing of long-term liabilities | | 9,690 | 19,263 |
| Repayments of long-term liabilities | | (8,630) | (1,212) |
| Exercised share options | | <u>0</u> | <u>218</u> |
| | | <u>6,910</u> | <u>24,609</u> |
| Net change in cash and cash equivalents | | 5,031 | (12,607) |
| Effects of foreign exchange adjustments | | 306 | 151 |
| Cash and cash equivalents at beginning of year | | <u>12,178</u> | <u>20,914</u> |
| Cash and cash equivalents at end of period | | <u><u>17,516</u></u> | <u><u>8,458</u></u> |
| Additional information regarding cash flow | 10 | | |

Consolidated Statement of changes in Equity for the period ended 30 June 2007

| | Share capital | Capital reserves | Translation reserves | Accumulated profits | Total equity |
|---|------------------|---------------------|-------------------------|------------------------|-----------------|
| Balance at 1 January 2006..... | 4,160 | 104,162 | 3,771 | 40,736 | 152,829 |
| Translation difference of shares in foreign companies..... | | | 4,176 | | 4,176 |
| Net gains / losses not recognised in the income statement..... | 0 | 0 | 4,176 | 0 | 4,176 |
| Purchases of treasury stock..... | (5) | (707) | | | (712) |
| Exercised share options..... | 15 | 971 | | | 986 |
| Net profit for the year..... | | | | 4,360 | 4,360 |
| Balance at 31 December 2006..... | 4,170 | 104,426 | 7,947 | 45,096 | 161,639 |
| Translation difference of shares in foreign companies..... | | | 5,931 | | 5,931 |
| Net gains / losses not recognised in the income statement..... | 0 | 0 | 5,931 | 0 | 5,931 |
| Net loss for the period..... | | | | (1,223) | (1,223) |
| Balance at 30 June 2007..... | 4,170 | 104,426 | 13,878 | 43,873 | 166,347 |

Notes to the Financial Statements

1. Operations

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

The production and assembly of the Company's products was conducted in ten places during the period: at Ossur North America, Inc., in Aliso Viejo, Foothill Ranch and Camarillo in California, Paulsboro in New Jersey, and in Albion, Michigan, at Ossur Canada, in Canada, Ossur UK in Manchester, Gibaud Group (La Tour Finance) in St. Etienne and Trevoux in France and at Ossur hf. in Iceland. Part of the production is outsourced to China, Thailand and Taiwan.

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 and inventory management; R&D, responsible for product development, product management and quality control; Ossur Americas, responsible for sales, marketing and distribution in the USA, Canada and Latin America; Ossur Europe, responsible for sales, marketing and distribution in Europe, Middle East and Africa and Ossur Asia responsible for sales and marketing in Australia, Japan, China and other Asian countries.

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 2006. 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 2006.

3. Quarterly statements

| | Q2 | Q1 | Q4 | Q3 | Q2 |
|---------------------------------------|---------------|----------------|----------------|---------------|---------------|
| | 2007 | 2007 | 2006 | 2006 | 2006 |
| Net sales | 88,037 | 80,380 | 63,844 | 62,755 | 65,500 |
| Cost of goods sold | (34,916) | (34,393) | (26,945) | (24,946) | (26,787) |
| Gross profit | 53,121 | 45,987 | 36,899 | 37,809 | 38,713 |
| Other income | 197 | 320 | 286 | 121 | 69 |
| Sales and marketing exp. | (21,261) | (21,978) | (16,758) | (17,530) | (17,323) |
| Research and develop. exp. | (4,599) | (4,994) | (4,744) | (4,254) | (4,228) |
| General and admin. exp. | (16,082) | (15,277) | (9,785) | (9,085) | (8,753) |
| Restructuring expenses | 0 | 0 | (5,453) | 0 | 0 |
| Profit from operations | 11,376 | 4,058 | 444 | 7,061 | 8,478 |
| Financial income/(expenses) | (9,526) | (7,852) | (5,807) | (3,887) | (5,987) |
| Profit (loss) before tax | 1,850 | (3,794) | (5,363) | 3,174 | 2,491 |
| Income tax | (367) | 1,088 | 1,656 | 2,203 | (372) |
| Net (loss) profit | 1,483 | (2,706) | (3,707) | 5,377 | 2,119 |

Notes to the Financial Statements

4. Net sales

Net sales are specified as follows according to markets:

| | <u>YTD 2007</u> | <u>YTD 2006</u> |
|---------------|-----------------|-----------------|
| Americas..... | 80,721 | 77,653 |
| Europe..... | 82,785 | 43,555 |
| Asia..... | 4,911 | 4,326 |
| | <u>168,417</u> | <u>125,534</u> |

5. Geographical segments

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

| 2007 | <u>Americas YTD 2007</u> | <u>Europe YTD 2007</u> | <u>Asia YTD 2007</u> | <u>Eliminations YTD 2007</u> | <u>Consolidated YTD 2007</u> |
|--------------------------|------------------------------|----------------------------|--------------------------|----------------------------------|----------------------------------|
| Revenue | | | | | |
| External sales..... | 80,721 | 82,785 | 4,911 | 0 | 168,417 |
| Inter-segment sales..... | 8,699 | 32,274 | 1 | (40,974) | 0 |
| Total revenue..... | <u>89,420</u> | <u>115,059</u> | <u>4,912</u> | <u>(40,974)</u> | <u>168,417</u> |

Inter-segment sales are calculated from external sales prices.

Result

| | | | | | |
|----------------------------------|--------------|--------------|------------|--------------|-----------------|
| Segment result..... | <u>6,503</u> | <u>7,395</u> | <u>149</u> | <u>1,387</u> | 15,434 |
| Financial income/(expenses)..... | | | | | <u>(17,378)</u> |
| Profit (loss) before tax..... | | | | | (1,944) |
| Income tax..... | | | | | 721 |
| Net loss..... | | | | | <u>(1,223)</u> |

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

| | <u>30.6.2007</u> | <u>30.6.2007</u> | <u>30.6.2007</u> | <u>30.6.2007</u> | <u>30.6.2007</u> |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | |
| Segment assets..... | 408,033 | 783,884 | 3,873 | (560,850) | <u>634,940</u> |
| Liabilities | | | | | |
| Segment liabilities..... | 299,564 | 575,161 | 2,411 | (408,543) | <u>468,593</u> |

Notes to the Financial Statements

| 2006 | Americas YTD 2006 | Europe YTD 2006 | Asia YTD 2006 | Eliminations YTD 2006 | Consolidated YTD 2006 |
|------------------------------------|----------------------|--------------------|-------------------|--------------------------|--------------------------|
| Revenue | | | | | |
| External sales..... | 77,653 | 43,555 | 4,326 | 0 | 125,534 |
| Inter-segment sales..... | 7,983 | 35,950 | 0 | (43,933) | 0 |
| Total revenue..... | <u>85,636</u> | <u>79,505</u> | <u>4,326</u> | <u>(43,933)</u> | <u>125,534</u> |
| Result | | | | | |
| Segment result..... | <u>(935)</u> | <u>15,455</u> | <u>1,359</u> | <u>(3,641)</u> | 12,238 |
| Financial income/(expenses)..... | | | | | <u>(10,908)</u> |
| Profit before tax..... | | | | | 1,330 |
| Income tax..... | | | | | 1,360 |
| Net profit..... | | | | | <u>2,690</u> |
| Other information | | | | | |
| Capital additions..... | 2,075 | 2,361 | 19 | 0 | 4,455 |
| Depreciation and amortization..... | 7,568 | 1,929 | 3 | 0 | 9,500 |
| Balance sheet | | | | | |
| | <u>31.12.2006</u> | <u>31.12.2006</u> | <u>31.12.2006</u> | <u>31.12.2006</u> | <u>31.12.2006</u> |
| Assets | | | | | |
| Segment assets..... | 386,960 | 740,722 | 3,924 | (518,854) | <u>612,752</u> |
| Liabilities | | | | | |
| Segment liabilities..... | 308,242 | 546,089 | 3,197 | (406,415) | <u>451,113</u> |

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:

| | <u>YTD 2007</u> | <u>YTD 2006</u> |
|--------------------------|-----------------|-----------------|
| Prosthetics..... | 65,955 | 58,869 |
| Bracing and support..... | 91,341 | 65,905 |
| Compression Therapy..... | 10,112 | 0 |
| Other products..... | 1,009 | 760 |
| | <u>168,417</u> | <u>125,534</u> |

Notes to the Financial Statements

7. Financial income / (expenses)

Interest income and (expenses) are specified as follows:

| | YTD 2007 | YTD 2006 |
|---|-----------------|-----------------|
| Income from investments: | | |
| Bank deposit..... | 196 | 34 |
| Other loans and receivables..... | (8) | 11 |
| Available for sale investments..... | 65 | 0 |
| Profit from trading investments..... | 305 | 0 |
| Other interest income..... | 23 | 34 |
| | <u>581</u> | <u>79</u> |
| Finance costs: | | |
| Interest on bank loans..... | (12,153) | (7,167) |
| Interest on obligations under finance leases..... | 0 | (10) |
| Other interest expenses..... | (329) | (116) |
| | <u>(12,482)</u> | <u>(7,293)</u> |
| Exchange rate differences..... | (5,477) | (3,694) |
| | <u>(17,378)</u> | <u>(10,908)</u> |

8. Income tax

Income tax are specified as follows:

| | YTD 2007 | YTD 2006 |
|-------------------------------|------------|--------------|
| Current tax expenses..... | (979) | (83) |
| Deferred tax revenue..... | 1,700 | 1,599 |
| Exchange rate difference..... | 0 | (156) |
| | <u>721</u> | <u>1,360</u> |

Reconciliation of effective tax rate:

| | YTD 2007 | | YTD 2006 | |
|---|----------------|------------|--------------|---------------|
| | Amount | % | Amount | % |
| Result before taxes..... | <u>(1,944)</u> | | <u>1,330</u> | |
| Income tax revenue calculated at 18%..... | 350 | 18% | (239) | 18% |
| Effect of different tax rates of other jurisdictions..... | 1,969 | 101% | 1,576 | (118%) |
| Effect of nondeductable expenses/revenues..... | (33) | (2%) | (61) | 5% |
| Effect of change in tax rate..... | 87 | 4% | (56) | 4% |
| Effect of previously recognised tax loss reversed..... | (1,652) | (85%) | 0 | 0% |
| Other changes..... | 0 | 0% | 140 | (11%) |
| | <u>721</u> | <u>37%</u> | <u>1,360</u> | <u>(102%)</u> |

Notes to the Financial Statements

9. Earnings per share

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

| | <u>YTD 2007</u> | <u>YTD 2006</u> |
|--|-----------------|-----------------|
| Net (loss)/profit..... | (1,223) | 2,690 |
| Total average number of shares outstanding during the period (in thousands)..... | <u>384,922</u> | <u>384,162</u> |
| Total average number of shares including potential shares (in thousands)..... | <u>385,011</u> | <u>384,778</u> |
| Basic Earnings per Share (US cent) | (0.32) | 0.70 |
| Diluted Earnings per Share (US cent) | (0.32) | 0.70 |
| Cash Earnings per Share | 2.84 | 3.17 |
| Diluted Cash Earnings per Share | 2.84 | 3.17 |
| | <u>Q2 2007</u> | <u>Q2 2006</u> |
| Net (loss)/profit for Q2..... | 1,483 | 2,119 |
| Total average number of shares outstanding during Q2 (in thousands)..... | <u>384,922</u> | <u>384,222</u> |
| Total average number of shares including potential shares (in thousands)..... | <u>385,011</u> | <u>384,834</u> |
| Basic Earnings per Share (US cent) | 0.39 | 0.55 |
| Diluted Earnings per Share (US cent) | 0.39 | 0.55 |
| Cash Earnings per Share | 1.94 | 1.77 |
| Diluted Cash Earnings per Share | 1.94 | 1.76 |

10. Additional information regarding cash flow

| | <u>YTD 2007</u> | <u>YTD 2006</u> |
|--|-----------------|-----------------|
| Net (Loss)/Profit for the period | (1,223) | 2,690 |
| Items not affecting cash | <u>16,239</u> | <u>11,823</u> |
| Working capital provided by operating activities | <u>15,016</u> | <u>14,513</u> |
| (Increase) / decrease in inventories | (1,093) | (2,386) |
| (Increase) / decrease in receivable | (4,832) | (2,506) |
| Increase / (decrease) in payables | <u>4,304</u> | <u>(2,816)</u> |
| Net cash provided by operating activities | <u>13,395</u> | <u>6,805</u> |

Notes to the Financial Statements

11. Property, plant and equipment

Operating fixed assets are specified as follows:

| | Buildings and sites | Machinery & equipment | Fixtures & office equip. | Total |
|--|------------------------|--------------------------|-----------------------------|--------|
| Cost | | | | |
| At 1 January 2007..... | 15,685 | 30,793 | 23,781 | 70,259 |
| Reclassification..... | 0 | 249 | (249) | 0 |
| Additions..... | 419 | 835 | 2,198 | 3,453 |
| Acquired on acquisition of subsidiary..... | 0 | 93 | 0 | 93 |
| Exchange differences..... | 308 | 560 | 258 | 1,126 |
| Eliminated on disposal..... | 0 | (335) | (194) | (530) |
| Fully depreciated assets..... | 0 | (256) | (51) | (307) |
| At 30 June 2007..... | 16,412 | 31,939 | 25,743 | 74,095 |
| Accumulated depreciation | | | | |
| At 1 January 2007..... | 7,067 | 16,739 | 9,379 | 33,185 |
| Reclassification..... | 0 | 62 | (62) | 0 |
| Charge for the period..... | 270 | 1,846 | 2,456 | 4,571 |
| Exchange differences..... | 162 | 540 | 134 | 836 |
| Eliminated on disposal..... | 0 | (256) | (99) | (355) |
| Fully depreciated assets..... | 0 | (256) | (51) | (307) |
| At 30 June 2007..... | 7,499 | 18,675 | 11,755 | 37,930 |
| Carrying Amount | | | | |
| At 30 June 2007..... | 8,913 | 13,264 | 13,988 | 36,165 |
| At 31 December 2006..... | 8,617 | 14,054 | 14,403 | 37,074 |

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

| | YTD 2007 | YTD 2006 |
|---|----------|----------|
| Cost of goods sold | 1,635 | 1,572 |
| Sales and marketing expenses | 143 | 84 |
| Research and development expenses..... | 120 | 119 |
| General and administrative expenses | 2,672 | 1,164 |
| | 4,571 | 2,939 |

The following rates are used for the depreciation:

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

Notes to the Financial Statements

12. Goodwill

| | 30.6.2007 |
|---|----------------|
| Cost | |
| At 1 January 2007..... | 316,593 |
| Arising on acquisition of subsidiaries..... | 9,692 |
| Addition due to previous acquisitions..... | 828 |
| Exchange differences..... | 3,938 |
| At 30 June 2007..... | <u>331,051</u> |
| Carrying amount | |
| At 30 June 2007..... | <u>331,051</u> |
| At 31 December 2006..... | <u>316,593</u> |

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

13. Other intangible assets

| Cost | Cust./distrib. | | | | Total |
|----------------------------|----------------|---------------|---------------|---------------|---------------|
| | relationship | Patent | Trademark | Other | |
| At 1 January 2007..... | 0 | 15,678 | 25,982 | 49,455 | 91,115 |
| Additions..... | 0 | 95 | 17 | 13 | 125 |
| Reclassification..... | 35,159 | 116 | 8,312 | (43,587) | 0 |
| Exchange differences..... | 531 | 336 | 568 | 0 | 1,435 |
| At 30 June 2007..... | <u>35,690</u> | <u>16,225</u> | <u>34,879</u> | <u>5,881</u> | <u>92,675</u> |
| Amortization | | | | | |
| At 1 January 2007..... | 0 | 5,443 | 1,801 | 13,913 | 21,157 |
| Charge for the period..... | 4,117 | 1,291 | 634 | 1,546 | 7,588 |
| Reclassification..... | 8,092 | 0 | 2,432 | (10,524) | 0 |
| Exchange differences..... | 177 | 179 | 25 | 0 | 381 |
| At 30 June 2007..... | <u>12,386</u> | <u>6,913</u> | <u>4,892</u> | <u>4,935</u> | <u>29,126</u> |
| Carrying Amount | | | | | |
| At 30 June 2007..... | <u>23,304</u> | <u>9,312</u> | <u>29,987</u> | <u>946</u> | <u>63,549</u> |
| At 31 December 2006..... | <u>0</u> | <u>10,235</u> | <u>24,181</u> | <u>35,542</u> | <u>69,959</u> |

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 period is recognised as expense on the following bases:

| | |
|---------------------------------------|-----------|
| Patent | 2 to 7% |
| Trademark | 10 to 34% |
| Customer and distributor relationship | 5 to 32% |
| Other intangible assets | 12 to 20% |

Notes to the Financial Statements

| | YTD 2007 | YTD 2006 |
|--|--------------|--------------|
| Cost of goods sold..... | 300 | 123 |
| Sales and marketing expenses..... | 4,267 | 3,566 |
| Research and development expenses..... | 2,250 | 2,158 |
| General and administrative expenses..... | 771 | 714 |
| | <u>7,588</u> | <u>6,561</u> |

14. The Consolidation

The Consolidated Financial Statements of Ossur hf. pertain to the following subsidiaries:

| Name of subsidiary | Place of registration and operation | Ownership % | Principal activity |
|---------------------------------------|---|-------------|--|
| Ossur Holding, AB..... | Sweden | 100% | Holding |
| Ossur Nordic, AB..... | Sweden | 100% | Sales, distribution and services |
| Ossur Nordic, AS..... | Norway | 100% | Sales, distribution and services |
| Empower H. C. Solution, AB..... | Sweden | 100% | Healthcare consulting |
| Ossur Americas Holdings, Inc..... | USA | 100% | Holding |
| Ossur Americas, Inc..... | USA | 100% | Manufacturer, sales, distribution and services |
| Rigid Med. Techn., Inc..... | USA | 100% | Services |
| Empower Business Sol, Inc..... | USA | 100% | Healthcare consulting |
| Ortho Vantage, 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 |
| La Tour Finance (SAS)..... | France | 100% | Holding |
| Gibaud Pharma (EURL)..... | France | 100% | Immaterial Operations |
| Gibaud (SAS)..... | France | 100% | Manufacturer, sales, distribution and services |
| Derby Finances (SAS)..... | France | 50% | No operation |
| Tournier Bottu (SAS)..... | France | 100% | Manufacturing |
| Gibaud Espania (SA)..... | Spain | 100% | Sales, distribution and services |
| Gibaud Suisse (SA)..... | Swiss | 100% | Sales, distribution and services |
| Ossur Asia Pacific PTY, Ltd..... | Australia | 100% | Sales, distribution and services |
| Ossur Prosth. & Rehabil. Co, Ltd..... | China | 100% | Manufacturer, sales, distribution and services |
| Gentleheal ehf..... | Iceland | 100% | Manufacturer and sales |

Notes to the Financial Statements

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

On 7 February 2007 Ossur acquired Somas Orthopaedie BV and Somas International BV in Holland. Somas has been merged in to Ossur Europe BV.

Ossur Americas Holdings, Inc. (formerly Ossur Holdings, Inc.) merged the majority of its legal entities into its wholly owned subsidiary Ossur Americas, Inc. (formerly Ossur North America, Inc).

GBM Medical AB has been merged into Ossur Nordic AB, GII Holding Belgium has been legally dissolved and Medistox name was changed to Ossur UK Ltd.

Generation II Orthotics, Inc was renamed Ossur Canada, Inc.

15. Financial assets

Long-term investments are specified as follows:

| | Investments | Loans | Total |
|---|-------------|-------|-------|
| Balance at 1 January 2006..... | 608 | 904 | 1,512 |
| Additions during the period..... | 17 | 213 | 230 |
| Acquired on acquisition of subsidiary..... | 0 | 820 | 820 |
| Changes /installments during the period..... | (100) | (352) | (452) |
| Exchange differences..... | 0 | 98 | 98 |
| At 1 January 2007..... | 525 | 1,683 | 2,208 |
| Additions during the period..... | 9 | 612 | 621 |
| Changes / installments during the period..... | 0 | (338) | (338) |
| Exchange differences..... | 41 | 37 | 78 |
| At 30 June 2007..... | 575 | 1,994 | 2,569 |

The investments included above represent investments in bonds and other long-term receivables which present the Company with opportunity for return through interest income and trading gains. The investments are valued at cost, less an allowance based on impairment by the management.

16. Inventories

| | 30.6.2007 | 31.12.2006 |
|-----------------------|-----------|------------|
| Raw material..... | 15,942 | 17,600 |
| Work in progress..... | 3,890 | 2,409 |
| Finished goods | 29,844 | 27,367 |
| | 49,676 | 47,376 |

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 10,082 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,410 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

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

Notes to the Financial Statements

17. Accounts and other receivables

Accounts receivables:

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|---------------------------------------|------------------|-------------------|
| Nominal value..... | 62,303 | 51,024 |
| Allowances for doubtful accounts..... | (1,418) | (1,162) |
| Allowances for sales return..... | (711) | (715) |
| | <u>60,174</u> | <u>49,147</u> |

The average credit period taken on sale of goods is 52 days. An allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience.

The management considers that the carrying amount of trade receivables approximates their fair value.

Other receivables:

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|-----------------------|------------------|-------------------|
| VAT refundable..... | 1,152 | 1,501 |
| Prepaid expenses..... | 6,126 | 5,594 |
| Other..... | 4,497 | 7,637 |
| | <u>11,775</u> | <u>14,732</u> |

The directors consider that the carrying amount of other receivables approximates their fair value.

Bank balances and cash:

Bank balances and short-term deposits is held by the Company treasury function. The carrying amount of these assets approximates their fair value.

Notes to the Financial Statements

18. Share capital

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

| | <u>Shares</u> | <u>Nominal value</u> |
|--|---------------|----------------------|
| Total share capital at period-end..... | 384.9 | 4,170 |

Shares issued and outstanding at period-end numbered a total of 384,940,447. The nominal value of each share is one Icelandic krona. No treasury stock is held at period end.

Changes in share capital are as follows:

| | <u>Share capital</u> |
|--|----------------------|
| Share capital as of 1 January 2006 | 4,160 |
| Purchases of treasury stock | (5) |
| Exercised share options..... | 15 |
| Share capital as of 1 January 2007..... | <u>4,170</u> |
| Balance at 30 June 2007..... | <u>4,170</u> |

19. Capital reserves

| | <u>Share premium</u> | <u>Statutory reserves</u> | <u>Total</u> |
|----------------------------------|----------------------|---------------------------|----------------|
| Balance at 1 January 2006..... | 103,119 | 1,043 | 104,162 |
| Purchases of treasury stock..... | (707) | 0 | (707) |
| Exercised share options..... | 971 | 0 | 971 |
| Balance at 1 January 2007..... | <u>103,383</u> | <u>1,043</u> | <u>104,426</u> |
| Balance at 30 June 2007..... | <u>103,383</u> | <u>1,043</u> | <u>104,426</u> |

20. Translation reserves

| | <u>Translation reserves</u> |
|--|-----------------------------|
| Balance at 1 January 2006..... | 3,771 |
| Exchange differences arising on translation of subsidiaries..... | 4,176 |
| Balance at 1 January 2007..... | <u>7,947</u> |
| Exchange differences arising on translation of subsidiaries..... | 5,931 |
| Balance at 30 June 2007..... | <u>13,878</u> |

21. Accumulated profits

| | <u>Accumulated profits</u> |
|--------------------------------|----------------------------|
| Balance at 1 January 2006..... | 40,736 |
| Net profit for the period..... | 4,360 |
| Balance at 1 January 2007..... | <u>45,096</u> |
| Net result for the period..... | (1,223) |
| Balance at 30 June 2007..... | <u>43,873</u> |

Notes to the Financial Statements

22. Stock Option Contracts and Obligations to Increase Share Capital

At 7 February the board agreed a new share option agreements for the CEO and the six members of the Executive Committee. The key term of these agreements were that the CEO is granted an option to purchase 1.250.000 shares of common stock and each member of the Executive Committee is granted an option to purchase 308.000 shares of common stock.

The total number of shares to be provided is 3.098.000 or 0,89% of the company's current outstanding stock capital. These option will vest during the month of December 2011. The contract rate is ISK 113.4 per share, calculated as the average of the Companys share price during the last 20 working days prior to annual general meeting dated 23 February 2007. Estimated costs due to the stock option contracts is USD 0,7 million which will be expensed over the next five years.

23. Loans from credit institutions

Long-term liabilities are specified as follows:

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|-------------------------|------------------|-------------------|
| Loans in USD | 145,948 | 144,002 |
| Loans in EUR | 77,724 | 69,702 |
| | <u>223,672</u> | <u>213,704</u> |
| Current maturities..... | (15,306) | (15,089) |
| | <u>208,366</u> | <u>198,615</u> |

Aggregated annual maturities are as follows:

| | | |
|-------------------------------------|----------------|----------------|
| In 1.7.2007 - 30.6.2008 / 2007..... | 15,306 | 15,089 |
| In 1.7.2008 - 30.6.2009 / 2008..... | 18,070 | 15,149 |
| In 1.7.2009 - 30.6.2010 / 2009..... | 20,657 | 20,326 |
| In 1.7.2010 - 30.6.2011 / 2010..... | 10,392 | 20,378 |
| In 1.7.2011 - 30.6.2012 / 2011..... | 74,370 | 71,269 |
| Later..... | 84,877 | 71,493 |
| | <u>223,672</u> | <u>213,704</u> |

The average interest rates were as follows:

| | <u>YTD 2007</u> | <u>YTD 2006</u> |
|-----------------|-----------------|-----------------|
| Bank loans..... | 5.96% | 5.99% |

Debt issuance cost has been capitalized and is amortized over the term of the loan. The remaining amount is USD 2.7 million at period end.

The terms of the loan facility 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 buildings, machinery, equipment and inventories to secure banking facilities granted. Ossur uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of USD 140 million and of EUR 48,6 million have been made to swap floating interest rates to weighted average fixed interest rates of 5.96 including margin for periods up until 2012.

During the period a total gain of USD 529 thousand was recognized in the Income Statement due to the swap agreements.

Notes to the Financial Statements

24. Other long-term liabilities

Other long-term liabilities are specified as follows:

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|--------------------------------|------------------|-------------------|
| Other liabilities in USD | 404 | 577 |
| Other liabilities in SEK..... | 547 | 545 |
| Other liabilities in GBP..... | 1,508 | 1,747 |
| Other liabilities other..... | 117 | 92 |
| | <u>2,576</u> | <u>2,961</u> |
| Current maturities..... | (716) | (242) |
| | <u>1,860</u> | <u>2,719</u> |

Aggregated annual maturities are as follows:

| | | |
|--------------------------------------|--------------|--------------|
| In 1.7.2007 - 30.6.2008 / 2007..... | 716 | 242 |
| In 1.7.2008 - 30.6.2009 / 2008..... | 1,147 | 1,274 |
| In 1.7.2009 - 30.6.2010 / 2009..... | 193 | 289 |
| In 1.7.2010 - 30.06.2011 / 2010..... | 171 | 162 |
| Later..... | 349 | 994 |
| | <u>2,576</u> | <u>2,961</u> |

25. Deferred tax asset / (liability)

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|---|------------------|-------------------|
| At 1 January 2007 / 2006..... | 30,281 | (4,290) |
| Arising on acquisition of a subsidiary..... | 0 | (7,073) |
| Reclassification of Goodwill in Royce..... | 0 | 35,862 |
| Calculated tax for the period..... | 720 | 5,219 |
| Income tax payable for the period..... | 995 | 603 |
| Exchange differences..... | (114) | (40) |
| At 30 June 2007..... | <u>31,882</u> | <u>30,281</u> |

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

| | Assets | Liabilities | Net |
|---|---------------|-----------------|---------------|
| Goodwill..... | 45,369 | 0 | 45,369 |
| Intangible assets..... | 0 | (29,889) | -29,889 |
| Operating fixed assets..... | 143 | (1,881) | -1,738 |
| Other..... | 18,861 | (721) | 18,140 |
| Tax asset/liability Total..... | <u>64,373</u> | <u>(32,491)</u> | <u>31,882</u> |
| Tax asset and liability offsetting..... | (1,908) | 1,908 | 0 |
| Total..... | <u>62,465</u> | <u>(30,583)</u> | <u>31,882</u> |

Notes to the Financial Statements

26. Long-term liabilities - due within one year

| | <u>30.6.2007</u> | <u>31.12.2006</u> |
|-------------------------------------|------------------|-------------------|
| Loans from credit institutions..... | 15,306 | 15,089 |
| Other long-term liabilities..... | 716 | 242 |
| | <u>16,022</u> | <u>15,331</u> |

27. Bank loans

In December 2006 the Company entered into a EUR 100 million (USD 135 million) bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. The bridge loan is included in the Company's current liabilities at the end of the period. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio will temporarily be below its policy ratio. This temporary deviation has been approved by the Company's Board of Directors.

28. Provisions

| | <u>Warranty Provisions</u> | <u>Restructuring Provisions</u> | <u>Other Provisions</u> | <u>Total</u> |
|---|--------------------------------|-------------------------------------|-----------------------------|---------------|
| At 1 January 2007..... | 2,745 | 7,059 | 1,148 | 10,952 |
| Additional provision in the period..... | 966 | 0 | 54 | 1,020 |
| Exchange differences..... | 0 | 146 | 28 | 174 |
| Utilization of provision..... | (47) | (1,511) | (62) | (1,620) |
| At 30 June 2007..... | <u>3,664</u> | <u>5,694</u> | <u>1,168</u> | <u>10,526</u> |

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.

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

Notes to the Financial Statements

29. Acquisition of Somas

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

| | USD Acquisition 7.2.2007 |
|--|--------------------------------|
| Net assets acquired: | |
| Operating fixed assets..... | 90 |
| Inventories..... | 594 |
| Other current assets..... | 1,224 |
| Bank balances and cash..... | 30 |
| Current liabilities..... | (815) |
| | <u>1,122</u> |
| Goodwill..... | 9,692 |
| Total consideration..... | <u><u>10,814</u></u> |
| Satisfied by cash..... | <u>10,814</u> |
| | <u><u>10,814</u></u> |
| Net cash outflow arising on acquisition: | |
| Cash consideration..... | 10,814 |
| Bank balances and cash acquired..... | (30) |
| | <u><u>10,783</u></u> |

Somas is a leading distributor of bracing and support products in the Benelux area, with over 15% market share. The acquisition is expected to add approximately USD 5 million to sales in 2007 with an EBITDA margin of around 20%. Somas is an important addition to the platform for the Company's further expansion in Europe.

30. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 30 July 2007.