

Ossur hf

Consolidated Financial Statements
June 30th 2005

Ossur hf.
Grjóthalsi 5
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Iceland

kt. 560271-0189

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Confirmation by the Board of Directors and the President and CEO

It is the opinion of the Board of Directors and the President and CEO of Ossur hf. that these Interim Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 June 2005, the operational results for the period 1 January to 30 June 2005, and financial developments during that period.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Interim Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 June 2005 with their signatures.

Reykjavik, 27 July 2005

Board of Directors:

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson

Bengt Kjell

Thordur Magnusson

Niels Jacobsen

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		YTD 2005	YTD 2004	2004	2003	2002	2001
Growth							
Net sales	USD '000	66,572	62,443	124,399	94,467	81,284	68,380
EBITDA	USD '000	13,291	12,477	25,045	9,428	14,310	12,973
Profit from operations	USD '000	10,901	10,168	20,374	6,112	11,501	10,889
Net income	USD '000	7,788	7,123	15,227	4,661	10,056	8,632
Total assets	USD '000	108,433	103,515	108,915	102,126	71,425	58,201

Operational performance

Cash provided by operating activities	USD '000	7,693	6,011	16,600	10,383	10,503	10,359
- as ratio to total debt ⁽¹⁾	%	36	24	30	23	36	36
- as ratio to net profit		1.0	0.8	1.1	2.2	1.0	1.2
Working capital from operating activities	USD '000	12,095	11,690	23,095	8,774	14,661	10,771
- as ratio to long-term debt and stockh. Equity ⁽¹⁾	%	27	19	27	13	30	27

Liquidity and solvency

Quick ratio		1.5	1.4	1.4	1.2	1.5	1.2
Current ratio		2.3	2.1	2.2	1.8	2.3	1.9
Equity ratio	%	56	48	50	43	56	52

Asset utilization and efficiency

Total asset turnover ⁽¹⁾		1.2	1.2	1.2	1.1	1.3	1.3
Grace period granted ⁽¹⁾	Days	44	46	44	47	44	44

Profitability

Return on capital ⁽¹⁾	%	20	12	20	9	20	19
Return on common equity ⁽¹⁾	%	29	18	31	11	29	32
Operating profit as ratio to net sales	%	16	16	16	6	14	16
Net income before taxes as ratio to net sales	%	15	15	15	6	15	15
Net income for the period as ratio to net sales	%	12	11	12	5	12	12

Market

Value of stock	USD '000	388,402	302,401	395,514	201,237	219,584	158,492
Price/earnings ratio, (P/E) ⁽¹⁾		24.4	35.7	26.0	43.2	21.8	19.4
Price/book ratio		6.4	6.1	7.2	4.6	5.5	5.2
Number of shares	Millions	318	318	318	328	328	328
Earnings per Share, (EPS) ⁽¹⁾	US Cent	5.04	2.65	4.80	1.45	3.12	2.64
Diluted Earnings per Share, (Diluted EPS) ⁽¹⁾	US Cent	5.03	2.64	4.80	1.44	3.10	2.63

Notes

1. Financial ratios for YTD 2004 and YTD 2005 are based on operations for the preceding 12 months.
2. Financial ratios based on financial statements prepared in Icelandic currency prior to 2002 have been translated to US dollars. Income statement items have been translated at the average exchange rate for each period and balance sheet items have been translated at the exchange rate at the end of each period.

Auditors' Report

To the Board of Directors and Shareholders of Ossur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Ossur hf. and its subsidiaries as of 30 June 2005, and the related Consolidated Statements of Income and Cash Flows for the period then ended. These Consolidated Financial Statements contain Income Statements, Balance Sheets, Statement of Cash Flows, Statement of changes in Equity and Notes to the Financial Statements. These Financial Statements are the responsibility of the Company's management. Our responsibility is to issue a report on these Financial Statements based on our review.

We conducted our review in accordance with generally accepted auditing standards applicable to review engagements. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the Financial Statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying Financial Statements do not give a true and fair view of the financial position of Ossur hf. and its subsidiaries as of 30 June 2005, of the results of their operations and their cash flows for the period then ended in accordance with International Financial Reporting Standards. Financial Statements of foreign subsidiaries have been reviewed by Deloitte in the countries where they are located.

Reykjavík, 27 July 2005

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the periods 1.1.-30.6.2005 and 1.1.-30.6.2004

	Notes	2005 YTD	2004 YTD	2005 Q2	2004 Q2
Net sales	4	66,572	62,443	35,422	31,775
Cost of goods sold		<u>(26,364)</u>	<u>(24,728)</u>	<u>(13,863)</u>	<u>(12,595)</u>
Gross profit		40,208	37,715	21,559	19,180
Other income		586	332	510	307
Sales and marketing expenses		(13,995)	(13,696)	(7,002)	(6,856)
Research and development expenses		(5,202)	(4,476)	(2,767)	(2,156)
General and administrative expenses		<u>(10,696)</u>	<u>(9,707)</u>	<u>(5,800)</u>	<u>(4,853)</u>
Profit from operations		10,901	10,168	6,500	5,622
Financial income/(expenses)	6	<u>(682)</u>	<u>(974)</u>	<u>(271)</u>	<u>(696)</u>
Profit before tax		10,219	9,194	6,229	4,926
Income tax	24	<u>(2,431)</u>	<u>(2,071)</u>	<u>(1,614)</u>	<u>(1,066)</u>
Net profit for the period		<u><u>7,788</u></u>	<u><u>7,123</u></u>	<u><u>4,615</u></u>	<u><u>3,860</u></u>
Earnings per Share	7				
Basic Earnings per Share		<u>2.48</u>	<u>2.24</u>	<u>1.47</u>	<u>1.22</u>
Diluted Earnings per Share		<u>2.47</u>	<u>2.23</u>	<u>1.47</u>	<u>1.21</u>

Consolidated Balance Sheets

Assets

	Notes	30.6.2005	31.12.2004
Fixed assets			
Property, plant and equipment	8	17,089	15,994
Goodwill	9	24,649	25,095
Other intangible assets	10	4,703	5,375
Acquisition of subsidiary	11	1,154	0
Loans and receivables	12	747	824
Available for sale investments	13	344	411
Deferred tax asset	24	17,833	20,245
		66,519	67,944
Current assets			
Inventories	14	14,211	15,105
Accounts receivable	15	18,956	16,026
Other receivables		5,157	5,543
Bank balances and cash		3,590	4,297
		41,914	40,971
Total assets		108,433	108,915

30 June 2005 and 31 December 2004

Equity and liabilities

	Notes	30.6.2005	31.12.2004
Stockholders' equity			
Share capital	16	3,044	3,042
Capital reserves	17	17,975	17,747
Translation reserves	18	2,653	4,636
Accumulated profits	19	37,083	29,295
		60,755	54,720
Long-term liabilities			
Loans from credit institutions	21	26,960	32,187
Obligation under finance leases	22	120	240
Other long-term liabilities	23	143	332
Deferred tax liabilities	24	2,423	2,863
		29,646	35,622
Current liabilities			
Long-term liabilities - due within one year	25	2,280	2,556
Accounts payable		3,648	3,417
Tax liabilities		2,092	2,425
Other current liabilities		9,062	9,559
Provisions	26	950	616
		18,032	18,573
Total equity and liabilities		108,433	108,915

Consolidated Statements of Cash Flows for the periods 1.1.-30.6.2005 and 1.1.-30.6.2004

	Notes	YTD 2005	YTD 2004
Cash flows from operating activities			
Profit from operations		10,901	10,168
Depreciation and amortization	8, 10	2,390	2,309
Loss on disposal of assets		(460)	5
Changes in current assets and liabilities		<u>(3,328)</u>	<u>(4,251)</u>
Cash generated by operations		9,503	8,231
Interest received		37	18
Interest paid		(771)	(785)
Taxes paid		<u>(1,076)</u>	<u>(1,453)</u>
Net cash provided by operating activities		<u>7,693</u>	<u>6,011</u>
Cash flows from investing activities			
Purchase of fixed assets	8, 10	(3,403)	(2,660)
Proceeds from sale of fixed assets		98	149
Acquisition of subsidiaries		(1,154)	(911)
Sale of Domestic Shoeshop	27	549	0
Additions in loans and receivables	12	(10)	(108)
Installments of loans and receivables	12	35	6
Proceeds from sale of available for sale investments	13	5	106
Purchases of trading investments		0	(137)
Proceeds from sale of trading investments		<u>0</u>	<u>407</u>
Net cash used in investing activities		<u>(3,880)</u>	<u>(3,148)</u>
Cash flows from financing activities			
Borrowing of long-term liabilities		5,300	6,100
Repayments of long-term liabilities		(9,916)	(9,570)
Purchases of treasury stock		0	(1,002)
Exercised share options	16, 17	<u>230</u>	<u>29</u>
Net cash used in financing activities		<u>(4,386)</u>	<u>(4,443)</u>
Net change in cash and cash equivalents		(573)	(1,580)
Effects of foreign exchange adjustments		(134)	(83)
Cash and cash equivalents at beginning of year		<u>4,297</u>	<u>4,327</u>
Cash and cash equivalents at end of period		<u><u>3,590</u></u>	<u><u>2,664</u></u>
Other information			
Net cash provided by operating activities:			
Net profit for the period		7,788	7,123
Items not affecting cash		<u>4,307</u>	<u>4,567</u>
Working capital provided by operating activities		12,095	11,690
Changes in current assets and liabilities		<u>(4,402)</u>	<u>(5,679)</u>
Net cash provided by operating activities		<u>7,693</u>	<u>6,011</u>

Consolidated Statement of changes in Equity for the period ended 30 June 2005

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
Balance at 1 January 2004.....	3,083	24,412	2,448	14,068	44,011
Translation difference of shares in foreign companies.....			2,318		2,318
Net gains / losses not recognised in the income statement.....	0	0	2,318	0	2,318
Transferred to income due to sale of subsidiaries.....			(130)		(130)
Purchases of treasury stock.....	(62)	(7,193)			(7,255)
Exercised share options.....	16	324			340
Allocation of treasury stock to sellers of subsidiaries.....	5	204			209
Net profit for the year.....				15,227	15,227
Balance at 1 January 2005.....	3,042	17,747	4,636	29,295	54,720
Translation difference of shares in foreign companies.....			(1,983)		(1,983)
Net gains / losses not recognised in the income statement.....	0	0	(1,983)	0	(1,983)
Exercised share options.....	2	228			230
Net profit for the period.....				7,788	7,788
Balance at 30 June 2005.....	3,044	17,975	2,653	37,083	60,755

Notes to the Financial Statements

1. Operations

Ossur hf. designs, manufactures and markets prosthetic and orthotic solutions. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs and ankle and knee braces. The principal market areas of the Company are North America and Europe, which are served by companies in the United States, Canada, Sweden and the Netherlands, in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in six places during the period: at Ossur North America, Inc., in Aliso Viejo, California, which assembled prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactured prosthetic knees, and at Ossur hf. in Iceland, which manufactured liners, prosthetic feet and components. Orthotic devices were manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada and Generation II in Seattle in the US. The parent company operated a prosthetic workshop in Iceland.

According to organizational structure, the consolidation is divided into four divisions, i.e. Corporate Finance; responsible for overall financial management; Manufacturing & Operations, responsible for all production and inventory management; Sales and Marketing, responsible for overall marketing and sales units and R&D and Product Management; responsible for Quality Control, Product Development and New Product Management.

Localized marketing, sales distribution and services is handled by four independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada, Ossur Europe, B.V., Netherlands, and Ossur Nordic, AB, Sweden.

2. Summary of Significant Accounting Policies

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are prepared under the historical cost convention except for revaluation of certain financial instruments.

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

Basis of consolidation

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

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial minority interest is not accounted for in the Consolidated Financial Statements.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Notes to the Financial Statements

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the Consolidated Financial Statements. Unrealised gain in inventories resulting from intercompany transactions has been eliminated and calculated income tax in the Consolidated Financial Statements adjusted accordingly.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Consolidation's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at each balance sheet date. The amount of impairment is calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on weighted average cost of capital, which represents the cost of debt and equity after taxation. Impairment charges are measured on the basis of comparison of estimated fair values (discounted expected future cash flows) with corresponding book values.

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

Risk management

Ossur hf. overall philosophy towards foreign exchange risk is to manage risk by applying natural hedging to as much extent as possible and that way keep risk within acceptable level. The company does not apply forward contracts, derivatives or other form of financial hedging tools.

Long term financing is managed from Corporate Finance and individual subsidiaries do not engage in substantial external financing contracts with banks or credit institutions. Approximately 68% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

Almost 68% of the company's long term debt are bullet loans that will become due 2008. Interests are paid periodically. This limits considerably the cash flow and the liquidity risk for the company for the next 2-3 years. The loans are however subject to financial covenants the major ones being debt to EBITDA ratio and equity ratio.

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

Revenue recognition

Revenue from product sales are recognized when earned as required by generally accepted accounting principles. Product sales are recognised when goods are delivered and title has passed and are shown in the Income Statement net of value added tax, discount and internal sales.

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

Notes to the Financial Statements

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their cost value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases.

Foreign currencies

Transactions in currencies other than USD are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

For consolidation purposes, the assets and liabilities of the consolidation's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for each quarter. Translation differences from foreign companies are posted to translation reserves among equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

All borrowing costs are expensed in the period they incur.

Taxation

The income tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is calculated using the tax rates for each country.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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

Notes to the Financial Statements

Property, plant and equipment

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

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

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

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

Buildings.....	2-5%
Fixtures and furniture.....	10-34%
Automobiles.....	10-32%
Machinery and equipment.....	12-20%

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

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

Other intangible assets

Other intangible assets are recognised in an acquisition of subsidiaries only if an asset can be identified (such as patents and new technical solutions), it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

Intangible assets include non-compete agreements, non-disclosure agreements, patented and unpatented technology. These intangible assets will be amortized on a straight-line basis over their useful life. The amortization charge for each period is recognised as expense, on the following bases:

Patent.....	10-25%
Development cost.....	20%
Other intangible assets.....	20%

All research and development costs and costs relating to internally-generated patents incurred during the period are expensed.

Investments

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (Loans and receivables) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investments other than held to maturity are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in net profit or loss for the period.

Notes to the Financial Statements

Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Cost comprises direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the standard costing method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Accounts receivable

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off. Accounts receivable in other currencies than USD, have been entered at the exchange rates prevailing on the balance sheet date.

Stock option contracts and obligations to increase share capital

The consolidated companies have made stock option agreements with directors, employees and other parties relating to operations. Furthermore, a portion of the purchase price of companies purchased by the consolidation is contingent upon the achievement of specified operating results. These agreements represent an obligation to increase share capital in the future.

On 1 January 2004, Ossur Consolidated applied the requirement of IFRS 2 Share-based Payments. In accordance with the transition provisions, IFRS will be applied to all options granted after 7 November 2002 that were unvested as of 1 January 2004. All options in Ossur hf. were granted prior to 7 November 2002.

Notes to the Financial Statements

Long-term liabilities

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Long-term liabilities in other currency than USD, are recorded at the exchange rates prevailing on the balance sheet date. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing fees are expensed in the period they are incurred.

Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies than USD have been booked at the exchange rates prevailing on the balance sheet date.

Provisions

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Consolidation's liability.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

3. Quarterly statements

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Net sales	35,422	31,150	31,282	30,674	31,775
Cost of goods sold	(13,863)	(12,501)	(12,938)	(11,889)	(12,595)
Gross profit	21,559	18,649	18,344	18,785	19,180
Other income	510	76	497	220	307
Sales and marketing exp.	(7,002)	(6,993)	(6,830)	(6,246)	(6,856)
Research and develop. exp.	(2,767)	(2,435)	(2,386)	(2,204)	(2,156)
General and admin. exp.	(5,800)	(4,896)	(4,930)	(5,044)	(4,853)
Profit from operations	6,500	4,401	4,695	5,511	5,622
Financial income/(expenses)	(271)	(411)	(468)	210	(696)
Profit before tax	6,229	3,990	4,227	5,721	4,926
Income tax	(1,614)	(817)	(801)	(1,043)	(1,066)
Net profit for the period	4,615	3,173	3,426	4,678	3,860
EBITDA	7,758	5,533	5,934	6,634	6,738

4. Net sales

Net sales are specified as follows according to markets:

	YTD 2005	YTD 2004
North America	34,334	33,320
Europe, other.....	17,901	16,566
Nordic.....	9,974	8,639
International markets.....	4,363	3,918
	66,572	62,443

Notes to the Financial Statements

Net sales are specified as follows according to product lines:

	YTD 2005	YTD 2004
Prosthetics.....	51,177	45,928
Orthotics.....	14,772	15,408
Other products.....	623	1,107
	66,572	62,443

5. Geographical segments

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

	North America	Europe, other	Nordic	International markets	Eliminations	Consolidated
2005	YTD 2005	YTD 2005	YTD 2005	YTD 2005	YTD 2005	YTD 2005
Revenue						
External sales.....	34,334	17,901	9,974	4,363	0	66,572
Inter-segment sales.....	7,799	167	21,275	0	(29,241)	0
Total revenue.....	42,133	18,068	31,249	4,363	(29,241)	66,572

Inter-segment sales are calculated from external sales prices.

Result

Segment result.....	6,326	1,294	1,536	(321)	2,066	10,901
Financial income/(expenses).....						(682)
Profit before tax.....						10,219
Income tax.....						(2,431)
Net profit.....						7,788

Other information

Capital additions.....	1,450	190	1,763	0	0	3,403
Depreciation and amortisation.....	1,196	308	886	0	0	2,390

Balance sheet

	30.6.2005	30.6.2005	30.6.2005	30.6.2005	30.6.2005	30.6.2005
Assets						
Segment assets.....	94,911	18,204	109,157	1,163	(115,002)	108,433
Liabilities						
Segment liabilities.....	94,662	13,289	46,436	0	(106,709)	47,678

Notes to the Financial Statements

2004	North America YTD 2004	Europe, other YTD 2004	Nordic YTD 2004	International markets YTD 2004	Eliminations YTD 2004	Consolidated YTD 2004
Revenue						
External sales.....	33,320	16,566	8,639	3,918	0	62,443
Inter-segment sales.....	8,767	0	23,325	0	(32,092)	0
Total revenue.....	<u>42,087</u>	<u>16,566</u>	<u>31,964</u>	<u>3,918</u>	<u>(32,092)</u>	<u>62,443</u>
Net profit						
Segment result.....	<u>6,765</u>	<u>(1,228)</u>	<u>8,058</u>	<u>(349)</u>	<u>(3,078)</u>	10,168
Financial income/(expenses).....						(974)
Profit before tax.....						9,194
Income tax.....						(2,071)
Net profit.....						<u>7,123</u>
Other information						
Capital additions.....	377	845	1,790	0	(105)	2,907
Depreciation and amortisation.....	1,359	175	773	2	0	2,309
Balance sheet						
	31.12.2004	31.12.2004	31.12.2004	31.12.2004	31.12.2004	31.12.2004
Assets						
Segment assets.....	88,623	21,530	108,298	961	(110,497)	<u>108,915</u>
Liabilities						
Segment liabilities.....	91,173	16,931	51,109	0	(105,018)	<u>54,195</u>

6. Financial income / (expenses)

	YTD 2005	YTD 2004
Income from investments:		
Interest on bank deposits.....	28	17
Loss / profit from loans and receivables.....	(20)	9
Loss from available for sale investments.....	(1)	(4)
Profit from trading investments.....	0	8
Other interest income.....	9	1
	<u>16</u>	<u>31</u>
Finance costs:		
Interest on bank loans.....	(710)	(711)
Interest on obligations under finance leases.....	(9)	(27)
Other interest expenses.....	(52)	(38)
	<u>(771)</u>	<u>(776)</u>
Exchange rate differences.....	73	(229)
	<u>(682)</u>	<u>(974)</u>

Notes to the Financial Statements

7. Earnings per share

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

	YTD 2005	YTD 2004
Net profit for the period.....	7,788	7,123
Total average number of shares outstanding during the period (in thousands).....	314,109	317,542
Total average number of shares including potential shares (in thousands).....	314,935	318,871
Basic Earnings per Share (US cent)	2.48	2.24
Diluted Earnings per Share (US cent)	2.47	2.23
	Q2 2005	Q2 2004
Net profit for Q2.....	4,615	3,860
Total average number of shares outstanding during Q2 (in thousands).....	314,174	317,372
Total average number of shares including potential shares (in thousands).....	314,961	318,792
Basic Earnings per Share (US cent)	1.47	1.22
Diluted Earnings per Share (US cent)	1.47	1.21

8. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2005.....	3,161	16,845	9,097	29,103
Additions.....	0	1,621	1,782	3,403
Exchange differences.....	0	(397)	(165)	(562)
Eliminated on disposal.....	0	(192)	(105)	(297)
Fully depreciated assets.....	0	(409)	(85)	(494)
At 30 June 2005.....	3,161	17,468	10,524	31,153
Accumulated depreciation				
At 1 January 2005.....	502	8,149	4,458	13,109
Charge for the year.....	54	1,098	649	1,801
Exchange differences.....	0	(189)	(59)	(248)
Eliminated on disposal.....	0	(93)	(11)	(104)
Fully depreciated assets.....	0	(409)	(85)	(494)
At 30 June 2005.....	556	8,556	4,952	14,064
Carrying Amount				
At 30 June 2005.....	2,605	8,912	5,572	17,089
At 31 December 2004.....	2,659	8,696	4,639	15,994

Notes to the Financial Statements

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

	YTD 2005	YTD 2004
Cost of goods sold	932	1,012
Sales and marketing expenses	115	85
Research and development expenses.....	169	138
General and administrative expenses	585	538
	1,801	1,773

9. Goodwill

	30.6.2005
Cost	
At 1 January 2005.....	25,095
Additions.....	49
Exchange differences.....	(495)
At 30 June 2005.....	24,649
 Carrying amount	
At 30 June 2005.....	24,649

10. Other intangible assets

	Patent	Development- cost	Other	Total
Cost				
At 1 January 2005.....	4,418	458	2,766	7,642
Exchange differences.....	(61)	0	(46)	(107)
At 30 June 2005.....	4,357	458	2,720	7,535
 Amortization				
At 1 January 2005.....	1,334	150	783	2,267
Charge for the year.....	286	106	197	589
Exchange differences.....	(13)	0	(11)	(24)
At 30 June 2005.....	1,607	256	969	2,832
 Carrying Amount				
At 30 June 2005.....	2,750	202	1,751	4,703
At 31 December 2004.....	3,084	308	1,983	5,375

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

	YTD 2005	YTD 2004
Cost of goods sold.....	107	144
Sales and marketing expenses.....	260	164
Research and development expenses.....	15	46
General and administrative expenses.....	207	182
	589	536

Notes to the Financial Statements

11. 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 Holdings, Inc.....	USA	100%	Holding
Ossur Engineering, Inc.....	USA	100%	Manufacturer
Ossur North America, Inc.....	USA	100%	Sales, distribution and services
Generation II USA, Inc.....	USA	100%	Manufacturer, sales
Generation II Orthotics, Inc.,.....	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA.....	Belgium	100%	Holding
GII Orthotics Europe, NV.....	Belgium	100%	No operation
Ossur Europe, BV.....	Netherlands	100%	Sales, distribution and services
Ossur Asia Pacific PTY Ltd.....	Australia	100%	Sales, distribution and services

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

In May Ossur formed a new subsidiary in Australia by the name Ossur Asia Pacific PTY Ltd. The subsidiary is 100% owned by Ossur. On June 30th Ossur Asia Pacific entered into a Business Purchase Agreement to acquire the business and assets of Advanced Prosthetic Components Pty Limited in Sidney, Australia for USD 1,154 thousand plus the value of inventory. Operations started July 1st and therefore the final balance sheet of the company was not available at the balance sheet date.

12. Loans and receivables

	Loans and receivables
Balance at 1 January 2004.....	448
Additions during the year.....	362
Installments during the year.....	(101)
Exchange differences.....	115
At 1 January 2005.....	824
Additions during the year.....	10
Installments during the year.....	(35)
Exchange differences.....	(52)
At 30 June 2005.....	747

The investments included above represent investments in bonds and other long-term receivables which present the Consolidation 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.

Notes to the Financial Statements

13. Available for sale investments

	Available for sale
At 1 January 2004	476
Disposed of during the year.....	(117)
Fair value and exchange rate adjustments.....	52
At 1 January 2005.....	411
Disposed of during the year.....	(5)
Fair value and exchange rate adjustments.....	(62)
At 30 June 2005.....	344

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

14. Inventories

	30.6.2005	31.12.2004
Raw material.....	6,116	6,489
Work in progress.....	1,370	624
Finished goods	6,725	7,992
	14,211	15,105

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 7,635 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,786 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

15. Accounts receivable

	30.6.2005	31.12.2004
Nominal value.....	20,243	17,318
Allowances for doubtful accounts.....	(715)	(720)
Allowances for sales return.....	(572)	(572)
	18,956	16,026

16. Share capital

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

	Shares	Ratio	Nominal value
Total share capital at period-end.....	314.1	98.6%	3,044
Treasury stock at period-end.....	4.3	1.4%	42
	318.4	100.0%	3,086

Shares issued and outstanding at period-end numbered a total of 318,441,000. The nominal value of each share is one Icelandic krona.

Notes to the Financial Statements

Changes in share capital are as follows:	<u>Share capital</u>
Share capital as of 1 January 2004	3,083
Purchases of treasury stock	(62)
Exercised share options.....	16
Allocation of treasury stock to sellers of subsidiaries.....	5
Share capital as of 1 January 2005.....	<u>3,042</u>
Exercised share options.....	2
Balance at 30 June 2005.....	<u>3,044</u>

17. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2004.....	23,616	796	24,412
Purchases of treasury stock.....	(7,193)		(7,193)
Exercised share options.....	324		324
Allocation of treasury stock to sellers of subsidiaries.....	204		204
Balance at 1 January 2005.....	<u>16,951</u>	<u>796</u>	<u>17,747</u>
Exercised share options.....	228		228
Balance at 30 June 2005.....	<u>17,179</u>	<u>796</u>	<u>17,975</u>

18. Translation reserves

	Translation reserves
Balance at 1 January 2004.....	2,448
Exchange differences arising on translation of subsidiaries.....	2,318
Transferred to income due to sale of subsidiaries.....	(130)
Balance at 1 January 2005.....	<u>4,636</u>
Exchange differences arising on translation of subsidiaries.....	(1,983)
Balance at 30 June 2005.....	<u>2,653</u>

19. Accumulated profits

	Accumulated profits
Balance at 1 January 2004.....	14,068
Net profit for the year.....	15,227
Balance at 1 January 2005.....	<u>29,295</u>
Net profit for the period.....	7,788
Balance at 30 June 2005.....	<u>37,083</u>

Notes to the Financial Statements

20. Stock Option Contracts and Obligations to Increase Share Capital

Following is a schedule of stock option agreements and obligations to increase share capital assuming all conditions will be fully met:

Contract rate (ISK) / conditions / date granted	Number of shares (in Thousands)		
	2005	2006	Total
24.0 / conditional / September 2000	84	0	84
46.0 / conditional / June 2001.....	0	1,000	1,000
58.5 / conditional / January 2001.....	266	0	266
73.7 / conditional / July 2000	3,250	0	3,250
	3,600	1,000	4,600

All options are forfeited if the employee leaves the company before the options vest. The stock option agreements with contract rate of 58.5 expire in 2006 unless terminated.

	1/1 - 30/6 2005		1/1 - 31/12 2004	
	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	4,803	66.05	6,655	52.80
Forfeited during the year	0	0.00	(169)	58.50
Exercised during the year	(203)	69.76	(1,683)	14.45
Outstanding at the end of the period.....	4,600	65.89	4,803	66.05
Exercisable at the end of the period.....	3,600	71.42	319	58.50

At 30 June 2005, the total outstanding number of shares in Ossur hf. amounted to 318,441,000.

21. Loans from credit institutions

	Remaining balances	
	30.6.2005	31.12.2004
Loans in USD	19,381	23,115
Loans in EUR	8,445	10,053
	27,826	33,168
Current maturities.....	(866)	(981)
Loans from credit institutions.....	26,960	32,187

Aggregated annual maturities are as follows:

In 1.7.2005 - 30.6.2006 / 2005.....	866	981
In 1.7.2006 - 30.6.2007 / 2006.....	866	981
In 1.7.2007 - 30.6.2008 / 2007.....	24,361	981
In 1.7.2008 - 30.6.2009 / 2008.....	866	28,754
In 1.7.2009 - 30.6.2010 / 2009.....	867	981
Later.....	0	490
	27,826	33,168

Notes to the Financial Statements

22. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	30.6.2005	31.12.2004	30.6.2005	31.12.2004
Finance leases in USD	104	174	93	168
Finance leases in EUR	287	403	265	385
	391	577	358	553
Current maturities.....	(248)	(331)	(238)	(313)
Obligation under finance leases.....	143	246	120	240

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	30.6.2005	31.12.2004	30.6.2005	31.12.2004
In 1.7.2005 - 30.6.2006 / 2005.....	248	331	238	313
In 1.7.2006 - 30.6.2007 / 2006.....	143	215	120	209
In 1.7.2007 - 30.6.2008 / 2007.....	0	31	0	31
	391	577	358	553
Less: future finance charges.....	(33)	(24)		
Remaining balances.....	358	553		

The management estimates that the fair value of the consolidated lease obligations approximates their carrying amount.

The obligations under finance leases are pledged by the lessor's charge over the leased assets.

23. Other long-term liabilities

	Remaining balances	
	30.6.2005	31.12.2004
Other liabilities in USD	1,198	1,457
Other liabilities in EUR.....	121	137
	1,319	1,594
Current maturities.....	(1,176)	(1,262)
Other long-term liabilities.....	143	332

Aggregated annual maturities are as follows:

In 1.7.2005 - 30.6.2006 / 2005.....	1,176	1,262
In 1.7.2006 - 30.6.2007 / 2006.....	50	189
In 1.7.2007 - 30.6.2008 / 2007.....	48	50
In 1.7.2008 - 30.6.2009 / 2008.....	45	48
In 1.7.2009 - 30.6.2010 / 2009.....	0	45
	1,319	1,594

Notes to the Financial Statements

24. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2005.....	20,245	(2,863)	17,382
Calculated tax for the year.....	(2,459)	28	(2,431)
Income tax payable for the year.....	420	381	801
Exchange differences.....	(373)	31	(342)
At 30 June 2005.....	<u>17,833</u>	<u>(2,423)</u>	<u>15,410</u>

25. Long-term liabilities - due within one year

	30.6.2005	31.12.2004
Loans from credit institutions.....	866	981
Obligations under finance leases.....	238	313
Other long-term liabilities.....	1,176	1,262
	<u>2,280</u>	<u>2,556</u>

26. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2005.....	557	59	616
Additional provision in the year.....	445	275	720
Utilisation of provision.....	(132)	(254)	(386)
At 30 June 2005.....	<u>870</u>	<u>80</u>	<u>950</u>

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

27. Disposal of the Domestic Shoeshop

On 6 June 2005 Ossur hf. sold the domestic shoeshop owned by the company. The total cash consideration amounted to USD 895 thousand.

	Disposal 06/06/2005
Net assets at the date of disposal:	
Operating fixed assets.....	107
Inventories.....	340
	<u>447</u>
Total consideration.....	895
Net assets at the date of disposal.....	(447)
Gain on disposal.....	<u><u>448</u></u>

Notes to the Financial Statements

Satisfied by cash.....	549
Payable later during the year.....	<u>346</u>
	<u>895</u>
Net cash inflow arising on disposal	
Cash consideration.....	<u>549</u>

The operations of the shoeshop are not material in the Ossur hf. consolidation and therefore the disposal is not classified as discontinued operations. The gain on disposal is included with other income in the consolidated income statement.

28. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 28 July 2005.