Ossur hf

Consolidated Financial Statements
2004

Ossur hf.
Grjothalsi 5
110 Reykjavik
Iceland

kt. 560271-0189

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Report by the Board of Directors and President and CEO

It is the opinion of the Board of Directors and the President and CEO of Ossur hf., that these Financial Statements present the necessary information to evaluate the financial position of the Company at year-end, the operating results for the year and financial developments during the year 2004. Ossur Financial statements are prepared in accordance with IFRS reporting standards.

Ossur hf. designs, manufactures and sells prosthetic and orthotic solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada, Holland and Sweden. The Company sells its products world wide, but the principal market areas are North America and Europe. In the year 2004, Ossur Consolidation consisted of Ossur hf. in Iceland, the Ossur Holdings, Inc. Consolidation in the United States, Generation II Orthotics, Inc. in Canada, the Ossur Holding, A.B. Consolidation in Sweden, and Ossur Europe B.V. in Holland.

The total sales of the Ossur Consolidation amounted to USD 124.4 million, compared to USD 94.5 million in the preceding year. This represents an increase in sales of approximately 32%. Net profit amounted to USD 15.2 million compared to USD 4.7 million in 2003. Earnings per Share (EPS) amounted to US cents 4.80 compared to US cents 1.45 in 2003. Earnings before interests, taxes, depreciation and amortization (EBITDA) amounted to USD 25 million.

The total assets of the Ossur Consolidation amounted to USD 108.9 million at year-end, liabilities were 54.2 million, and equity was 54.7 million. The equity ratio at year-end was 50%, compared to 43% the preceding year.

In the course of the year the Company employed 568 employees, of which 213 were employed by the parent company in Iceland. Throughout 2003 an average of 480 employees were employed with the Company, of which 184 were employed by the parent company.

During the year, the Company acquired 6.4 million of treasury shares and handed over 2.2 million shares to meet stock option agreements. The share price of the Company was 76 at year-end, compared to 43.6 at the beginning of the year. The market value of the Company at year-end was 396 million USD and increased 97% over the year. At year-end, shareholders in Ossur hf. numbered 3,376, compared to 4,429 at the beginning of the year. Three shareholders owned more than 10% of the shares in the Company at year-end: AB Industrivärden, with 20.45%, Mallard Holding SA, with 18.69%, and William Demant Invest A/S, with 16.14%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company and Internal Rules of Procedure set by the Board back in 1999. The rules comply with the guideline on Corporate Governance set in March 2004 by the Icelandic Stock Exchange, the Iceland Chamber of Commerce and SA-Confederation of Icelandic Employers. The Internal Rules address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee has not been set up within the Board and the Board itself handles all issues that would be decided by an Audit Committee. A Compensation Committee is present within the Board. The Compensation Committee decides on compensation for the President & CEO. No Ossur employees are sitting on the Board of Directors.

The Board of Directors does not recommend payment of dividends to shareholders in 2005. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

Report by the Board of Directors and President and CEO

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur for the year 2004 with their signatures.

Reykjavik, February 7, 2005

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson	Gunnar Stefansson
Heimir Haraldsson	Kristjan T. Ragnarsson
Sigurbjorn Thorkelsson	Bengt Kjell

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		2004	2003	2002	2001	2000
Growth						
Net sales	USD '000	124,399	94,467	81,284	68,380	45,682
EBITDA	USD '000	25,045	9,428	14,310	12,973	8,904
Profit from operations	USD '000	20,374	6,112	11,501	10,889	7,560
Employees	Number	568	480	431	392	327
Net income (1)	USD '000	15,227	4,661	10,056	8,632	5,188
Total assets	USD '000	108,915	102,126	71,425	58,201	56,851
Operational performance						
Cash provided by operating activities	USD '000	16,600	10,383	10,503	10,359	5,797
- as ratio to total debt	%	30	23	36	36	30
- as ratio to net profit		1.1	2.2	1.0	1.2	1.1
Working capital from operating activities	USD '000	23,095	8,774	14,661	10,771	8,557
- as ratio to long-term debt and stockh. Equity	%	27	13	30	27	25
- as ratio to investm., current maturities, divid.		0.8	0.2	1.7	1.2	0.1
Liquidity and solvency						
Quick ratio		1.4	1.2	1.5	1.2	1.1
Current ratio		2.2	1.8	2.3	1.9	1.5
Equity ratio	%	50	43	56	52	45
Asset utilization and efficiency						
Net sales pr. employee	USD '000	219	197	189	174	140
Total asset turnover		1.2	1.1	1.3	1.3	1.1
Grace period granted	Days	44	47	44	44	50
Profitability						
Return on capital (1)	%	20	9	20	19	8
Return on common equity (1)	%	31	11	29	32	9
Operating profit as ratio to net sales	%	16	6	14	16	16
Net income before taxes as ratio to net sales	%	15	6	15	15	13
Net income for the period as ratio to net sales (1)	%	12	5	12	12	11
Market						
Value of stock	USD '000	395,514	201,237	219,584	158,492	255,928
Price/earnings ratio, (P/E) (1)		26.0	43.2	21.8	19.4	53.0
Price/book ratio		7.2	4.6	5.5	5.2	10.1
Number of shares	Millions	318	328	328	328	328
Earnings per Share, (EPS) (1)	US Cent	4.80	1.45	3.12	2.64	1.48
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	4.80	1.44	3.10	2.63	

Notes

1. Financial ratios for the year 2000 have been calculated using net income before extraordinary expenses.
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 audited the accompanying Consolidated Balance Sheets of Ossur hf. and subsidiaries as of December 31, 2004, and the related Consolidated Statements of Income and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit. The Financial Statements of the foreign subsidiaries of Ossur hf. were audited by Deloitte member firms.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our own audit and the audit reports on the Financial Statements of the foreign subsidiaries of Ossur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of December 31, 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 7 February 2005

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements
for the Years 1.1.-31.12.2004 and 1.1.-31.12.2003

	Notes	2004	2003	2004 Q4	2003 Q4
Net sales	4	124,399	94,467	31,282	27,651
Cost of goods sold		(49,555)	(40,232)	(12,938)	(12,408)
Gross profit		74,844	54,235	18,344	15,243
Other income		1,049	266	497	122
Sales and marketing expenses		(26,772)	(21,238)	(6,830)	(7,273)
Research and development expenses		(9,066)	(9,592)	(2,386)	(2,750)
General and administrative expenses		(19,681)	(17,559)	(4,930)	(6,691)
Profit from operations		20,374	6,112	4,695	(1,349)
Financial income/(expenses)	11	(1,232)	(407)	(468)	80
Profit before tax		19,142	5,705	4,227	(1,269)
Income tax	30	(3,915)	(1,044)	(801)	352
Net profit for the year / period		15,227	4,661	3,426	(917)
Earnings per Share	12				
Basic Earnings per Share		4.80	1.45	1.09	(0.29)
Diluted Earnings per Share		4.80	1.44	1.08	(0.29)

All amounts in thousands of USD 6

Consolidated Balance Sheets

Assets

	Notes	31.12.2004	31.12.2003
Fixed assets			
Property, plant and equipment	13	15,994	14,950
Goodwill	14	25,095	23,599
Other intangible assets	15	5,375	5,569
Loans and receivables	17	824	448
Available for sale investments	18	411	476
Deferred tax asset	30	20,245	20,529
		67,944	65,571
Current assets			
Inventories	19	15,105	12,415
Accounts receivable	20	16,026	14,965
Other receivables	20	5,543	4,586
Investments held for trading	21	0	262
Bank balances and cash	20	4,297	4,327
		40,971	36,555
Total assets		108,915	102,126

All amounts in thousands of USD 7

31 December 2004 and 31 December 2003

Equity and liabilities

	Notes	31.12.2004	31.12.2003
Stockholders' equity			
Share capital	22	3,042	3,083
Capital reserves	23	17,747	24,412
Translation reserves	24	4,636	2,448
Accumulated profits	25	29,295	14,068
		54,720	44,011
Long-term liabilites			
Loans from credit institutions	27	32,187	34,892
Obligation under finance leases	28	240	767
Other long-term liabilities	29	332	482
Deferred tax liabilities	30	2,863	2,206
		35,622	38,347
Current liabilites			
Long-term liabilities - due within one year	31	2,556	3,314
Accounts payable		3,417	4,263
Tax liabilities		2,425	606
Other current liabilities		9,559	9,872
Provisions	32	616	1,713
		18,573	19,768
Total equity and liabilities		108,915	102,126

All amounts in thousands of USD 8

Consolidated Statements of Cash Flows for the Years 2004 and 2003

	Notes	2004	2003
Cash flows from operating activities			
Profit from operations		20,374	6,112
Depreciation and amortization	13, 15	4,671	3,316
Loss / (gain) on disposal of assets		(433)	9
Changes in current assets and liabilities		(5,439)	4,839
Cash generated by operations		19,173	14,276
Interest received		76	195
Interest paid		(1,500)	(1,416)
Taxes paid		(1,149)	(2,672)
Net cash provided by operating activities		16,600	10,383
Cash flows from investing activities			
Purchase of fixed assets	13, 15	(6,609)	(4,686)
Proceeds from sale of fixed assets		813	196
Acquisition of subsidiaries		(911)	(29,867)
Sale of subsidiaries	33, 34	1,572	0
Additions in loans and receivables	17	(362)	(128)
Installments of loans and receivables	17	101	261
Purchases of available for sale investments	18	0	(5)
Proceeds from sale of available for sale investments	18	117	11
Purchases of trading investments	21	(137)	(4,099)
Proceeds from sale of trading investments	21	408	5,152
Net cash used in investing activities		(5,008)	(33,165)
Cash flows from financing activities			
Borrowing of long-term liabilities		20,620	32,000
Repayments of long-term liabilities		(25,346)	(13,305)
Purchases of treasury stock	22, 23	(7,255)	(3,061)
Exercised share options	22, 23	340	61
Net cash used in financing activities		(11,641)	15,695
Net change in cash and cash equivalents		(49)	(7,087)
Effects of foreign exchange adjustments		19	338
Cash and cash equivalents at beginning of year		4,327	11,076
Cash and cash equivalents at end of year		4,297	4,327

Other information

		2004	2003
Net cash provided by operating activities:			
Net profit for the year		15,227	4,661
Items not affecting cash		7,868	4,113
Working capital provided by operating activities		23,095	8,774
Changes in current assets and liabilities		(6,495)	1,609
Net cash provided by operating activities		16,600	10,383

All amounts in thousands of USD 9

Consolidated Statement of changes in Equity
for the period ended 31 December 2004

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
Balance at 1 January 2003..................	3,123	26,903	368	9,467	39,861
Translation difference of shares in foreign companies...............			2,080		2,080
Net gains / losses not recognised in the income statement......................	0	0	2,080	0	2,080
Purchases of treasury stock.................	(50)	(3,011)			(3,061)
Exercised share options.......................	2	59			61
Allocation of treasury stock to sellers of subsidiaries......................	8	401			409
Net profit for the year..........................				4,661	4,661
Transferred to statutory reserves...		60		(60)	0
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
Transfered 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 31 December 2004.............	3,042	17,747	4,636	29,295	54,720

All amounts in thousands of USD 10

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 seven 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; at Mauch, Inc. in Dayton, Ohio, which manufactured components for spinal implants, 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.

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 55% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

Almost 80% 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 3-4 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.

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.

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 year is recognised as an expense, on the following bases:

Buildings	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.

Other intangible assets consist of capitalized development expenses from previous years and the cost of obtaining patents and technical solutions. 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 an expense. The amortization charge for each year 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 (Investments held to maturity or 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.

All amounts in thousands of USD 14

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.

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

	Q1	Q2	Q3	Q4	Total
	1.1.-31.3.	1.4.-30.6.	1.7.-30.9.	1.10.-31.12.	1.1.-31.12.
Net sales	30,668	31,775	30,674	31,282	124,399
Cost of goods sold	(12,133)	(12,595)	(11,889)	(12,938)	(49,555)
Gross profit	18,535	19,180	18,785	18,344	74,844
Other income	25	307	220	497	1,049
Sales and marketing exp.	(6,840)	(6,856)	(6,246)	(6,830)	(26,772)
Research and develop. exp.	(2,320)	(2,156)	(2,204)	(2,386)	(9,066)
General and admin. exp.	(4,854)	(4,853)	(5,044)	(4,930)	(19,681)
Profit from operations	4,546	5,622	5,511	4,695	20,374
Financial income/(expenses)	(278)	(696)	210	(468)	(1,232)
Profit before tax	4,268	4,926	5,721	4,227	19,142
Income tax	(1,005)	(1,066)	(1,043)	(801)	(3,915)
Net profit for the period	3,263	3,860	4,678	3,426	15,227
EBITDA	5,739	6,738	6,634	5,934	25,045

4. Net sales

Net sales are specified as follows according to markets:

	2004	2003
North America	65,899	49,488
Europe, other...	32,620	24,387
Nordic..	17,722	14,089
International markets..	8,158	6,503
	124,399	94,467

All amounts in thousands of USD 16

Net sales are specified as follows according to currency:

	2004	2003
Canadian dollar, CAD	9,187	4,046
Swiss Franc, CHF	958	656
Euro, EUR	25,504	18,999
British Pound, GBP	7,482	5,760
Icelandic Krona, ISK	2,178	1,629
Norwegian Krona, NOK	4,950	3,873
Swedish Krona, SEK	10,265	8,404
US Dollar, USD	63,875	51,100
	124,399	94,467

5. Geographical segments

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

2004	North America 2004	Europe, other 2004	Nordic 2004	International markets 2004	Eliminations 2004	Consolidated 2004
Revenue						
External sales	65,899	32,620	17,722	8,158	0	124,399
Inter-segment sales	16,504	0	45,942	0	(62,446)	0
Total revenue	82,403	32,620	63,664	8,158	(62,446)	124,399

Inter-segment sales are calculated from external sales prices.

Result	North America 2004	Europe, other 2004	Nordic 2004	International markets 2004	Eliminations 2004	Consolidated 2004
Segment result	13,188	(2,823)	13,648	(587)	(3,052)	20,374
Financial income/(expenses)						(1,232)
Profit before tax						19,142
Income tax						(3,915)
Net profit						15,227

Other information	North America 2004	Europe, other 2004	Nordic 2004	International markets 2004	Eliminations 2004	Consolidated 2004
Capital additions	1,715	1,387	4,277	0	(523)	6,856
Depreciation and amortisation	2,607	431	1,630	3	0	4,671

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)	108,915
Liabilities						
Segment liabilities	91,173	16,931	51,109	0	(105,018)	54,195

All amounts in thousands of USD 17

2003	North America 2003	Europe, other 2003	Nordic 2003	International markets 2003	Eliminations 2003	Consolidated 2003
Revenue						
External sales....................	49,488	24,387	14,089	6,503	0	94,467
Inter-segment sales............	11,256	0	30,089	0	(41,345)	0
Total revenue....................	60,744	24,387	44,178	6,503	(41,345)	94,467
Net profit						
Segment result..................	8,357	(2,295)	2,816	(529)	(2,237)	6,112
Financial income/(expenses)........						(407)
Profit before tax........						5,705
Income tax........						(1,044)
Net profit........						4,661
Other information						
Capital additions................	8,363	801	3,780	3	(507)	12,440
Depreciation and amortisation......................	1,744	300	1,264	8	0	3,316
Balance sheet	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003
Assets						
Segment assets..................	92,613	16,065	103,720	1,020	(111,292)	102,126
Liabilities						
Segment liabilities............	96,517	10,076	48,073	0	(96,551)	58,115

6. Business segments

Current business segments for the Consolidation are Prosthetics, Orthotics 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:

	2004	2003
Prosthetics..........	91,549	79,482
Orthotics..........	30,153	11,814
Other products..........	2,697	3,171
	124,399	94,467

All amounts in thousands of USD 18

Notes to the Financial Statements

7. Salaries

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

	2004	2003
Salaries	30,334	26,568
Salary-related expenses	8,946	7,678
	39,280	34,246
Average number of positions	568	480

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

	2004	2003
Cost of goods sold	17,487	12,233
Sales and marketing	10,749	11,071
Research and development	3,956	4,340
General and administrative	7,088	6,602
	39,280	34,246

8. Management salaries and benefits

Board of Directors:	Salaries and related exp.	Share Options	Shares owned
Petur Gudmundarson Chairman of the Board	38	300,000	1,238,641
Ossur Kristinsson Vice Chairman	63	150,000	59,531,846
Gunnar Stefansson	15	150,000	1,224,812
Heimir Haraldsson	15	0	940,000
Kristjan Tomas Ragnarsson	15	150,000	349,616
Sigurbjorn Thorkelsson	15	150,000	313,072
Bengt Kjell	15	0	0
Excecutive committee:			
Jon Sigurdsson President and CEO	335	2,000,000	5,882,368
Hjorleifur Palsson CFO	187	1,000,000	0
Egill Jonsson VP of Manufacturing & Operations	187	0	16,208
Arni Alvar Arason VP of Sales and Marketing	189	250,000	1,506,287
Hilmar Bragi Janusson VP of Research & Development	187	250,000	969,456

Share options of board members, president and other executives were made during the years 2000 - 2001 and are exercisable in the years 2005 - 2006 with the condition that the relevant executive is still a member of the management. Share options of board members, president and two other executives were made at a share price of ISK 73,7 and one executive at a share price of ISK 46. No dividends, loans or commitments have been extended to these persons.

All amounts in thousands of USD 19

9. Fees to Auditors

	2004	2003
Audit of financial statements	190	215
Review of interim financial statements	95	92
Other services	121	136
	406	443

The amount includes payments to elected auditors of all companies within the consolidation.

10. Restructuring costs

Restructuring costs, classified by operational category, are specified as follows:

	2004	2003
Cost of goods sold	241	162
Sales and marketing	0	480
Research and development	0	556
General and administrative	260	333
	501	1,531

The restructuring costs represent severance costs associated with changes in the management team, elimination of the sales and marketing positions in Seattle and elimination of positions due to sale of Mauch's assets.

11. Financial income / (expenses)

	2004	2003
Income from investments:		
Interest on bank deposits	54	150
Profit from loans and receivables	115	58
Profit from available for sale investments	52	72
Profit from trading investments	9	125
Other interest income	26	43
	256	448
Finance costs:		
Interest on bank loans	(1,441)	(1,138)
Interest on obligations under finance leases	(48)	(63)
Other interest expenses	(128)	(141)
	(1,617)	(1,342)
Exchange rate differences	129	487
	(1,232)	(407)

All amounts in thousands of USD 20

12. Earnings per share

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

	2004	2003
Net profit for the year	15,227	4,661
Total average number of shares outstanding during the year (in thousands)	317,001	322,186
Total average number of shares including potential shares (in thousands)	317,363	323,431
Basic Earnings per Share (US cent)	4.80	1.45
Diluted Earnings per Share (US cent)	4.80	1.44

	Q4 2004	Q4 2003
Net profit for Q4	3,426	(917)
Total average number of shares outstanding during Q4 (in thousands)	315,348	320,215
Total average number of shares including potential shares (in thousands)	316,433	321,431
Basic Earnings per Share (US cent)	1.09	(0.29)
Diluted Earnings per Share (US cent)	1.08	(0.29)

13. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2004	3,598	17,348	8,549	29,495
Correction	0	92	(92)	0
Adjusted opening balance	3,598	17,440	8,457	29,495
Additions	0	3,680	2,516	6,196
Exchange differences	(13)	475	162	624
Disposed of on disposal of a susidiary	0	(2,826)	(252)	(3,078)
Eliminated on disposal	(419)	(662)	(104)	(1,185)
Fully depreciated assets	(5)	(1,262)	(1,682)	(2,949)
At 31 December 2004	3,161	16,845	9,097	29,103
Accumulated depreciation				
At 1 January 2004	403	8,917	5,225	14,545
Correction	0	92	(92)	0
Adjusted opening balance	403	9,009	5,133	14,545
Charge for the year	112	2,242	1,198	3,552
Exchange differences	1	286	68	355
Disposed of on disposal of a susidiary	0	(1,691)	(201)	(1,892)
Eliminated on disposal	(9)	(434)	(59)	(502)
Fully depreciated assets	(5)	(1,263)	(1,681)	(2,949)
At 31 December 2004	502	8,149	4,458	13,109
Carrying Amount				
At 31 December 2004	2,659	8,696	4,639	15,994
At 31 December 2003	3,195	8,431	3,324	14,950

The management estimates the fair value of buildings and sites at USD 4,500 thousand and other operating fixed asset at their book value.

The carrying amount of the Consolidation’s fixtures and equipment includes an amount of USD 771 thousand (2003: USD 1,319 thousand) in respect of assets held under finance leases. No other assets are pledged.

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

	2004	2003
Cost of goods sold	1,986	1,372
Sales and marketing expenses	138	127
Research and development expenses	231	313
General and administrative expenses	1,197	1,122
	3,552	2,934

Sales gain and loss classified by operational category, are shown in the following schedule:

	2004	2003
Other income	178	0
General and administrative expenses	(48)	(9)
	130	(9)

14. Goodwill

	31.12.2004
Cost	
At 1 January 2004	23,599
Arising on a acquisition of a subsidiary	459
Exchange differences	1,037
At 31 December 2004	25,095
Carrying amount	
At 31 December 2004	25,095

Additions arising on acquisition of a subsidiary relate to the acquisition of the Generation II Group in 2003. USD 410 thousand are due to receivables which where owned by the former sellers in accordance with the purchase agreement and should therefore not have been included in the opening balance which was consolidated into the Ossur consolidation. USD 49 thousand are due to invoices received in 2004 which related to the acquisition of Generation II and should therefore have been included in the goodwill entries. Total additions amounted therefore to USD 459 thousand.

During the year an indipendent party, other than the company's auditor, was hired to perform an impairment test on the goodwill of the company. According to the conclusion of the test no impairment loss has occured.

All amounts in thousands of USD 22

15. Other intangible assets

	Patent	Development-cost	Other	Total
Cost				
At 1 January 2004	3,578	458	2,609	6,645
Additions	658	0	2	660
Exchange differences	182	0	155	337
At 31 December 2004	4,418	458	2,766	7,642
Amortization				
At 1 January 2004	769	46	261	1,076
Charge for the year	521	104	494	1,119
Exchange differences	44	0	28	72
At 31 December 2004	1,334	150	783	2,267
Carrying Amount				
At 31 December 2004	3,084	308	1,983	5,375
At 31 December 2003	2,809	412	2,348	5,569

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

	2004	2003
Cost of goods sold	114	0
Sales and marketing expenses	339	0
Research and development expenses	291	256
General and administrative expenses	375	126
	1,119	382

16. 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
Mauch, Inc	USA	100%	No operation
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

All amounts in thousands of USD 23

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

At the end of the year the net assets and operations of Mauch, Inc. in the United States were sold. Further information regarding the sale is disclosed in note 33.

At the end of October Ossur hf. sold the subsidiaries Mega Hali Med AB and Linea Orthopedics AB in Sweden. At the date of the disposal there were no operations in the companies. Further information regarding the sale is disclosed in note 34.

The subsidiary Ossur UK Ltd. was dissolved during the year. No operations were in the company during 2004.

17. Loans and receivables

	Loans and receivables
Balance at 1 January 2003	523
Additions during the year	128
Installments during the year	(261)
Exchange differences	58
At 1 January 2004	448
Additions during the year	362
Installments during the year	(101)
Exchange differences	115
At 31 December 2004	824

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.

18. Available for sale investments

	Available for sale
At 1 January 2003	410
Purchased during the year	5
Disposed of during the year	(11)
Fair value and exchange rate adjustments	72
At 1 January 2004	476
Disposed of during the year	(117)
Fair value and exchange rate adjustments	52
At 31 December 2004	411

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.

All amounts in thousands of USD 24

19. Inventories

	31.12.2004	31.12.2003
Raw material	6,489	6,585
Work in progress	624	248
Finished goods	7,992	5,582
	15,105	12,415

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,700 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,284 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The Consolidation recognises obsolete and defective inventory among cost of good sold in the Income statement. An allowance amounting to USD 351 thousand (2003: USD 511 thousand) is deducted from inventories in the balance sheet and does not represent a final write-off. The allowance is based on management's best estimate and past experience.

20. Other financial assets

Accounts receivable:

	31.12.2004	31.12.2003
Nominal value	17,318	16,372
Allowances for doubtful accounts	(720)	(843)
Allowances for sales return	(572)	(564)
	16,026	14,965

The average credit period taken on sale of goods is 44 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 directors consider that the carrying amount of trade receivables approximates their fair value.

Other receivables:

	31.12.2004	31.12.2003
VAT refundable	1,607	862
Prepaid expenses	2,932	2,280
Receivable from previous Generation II shareholders	275	550
Lawsuit settlements generated from Generation II	0	440
Other	729	454
	5,543	4,586

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

Bank balances and cash:

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

All amounts in thousands of USD 25

21. Investments held for trading

	Held for trading
At 1 January 2003	1,190
Purchased during the year	4,099
Disposed of during the year	(5,152)
Fair value and exchange rate adjustments	125
At 1 January 2004	262
Purchased during the year	137
Disposed of during the year	(408)
Fair value and exchange rate adjustments	9
At 31 December 2004	0

22. Share capital

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

	Shares	Ratio	Nominal value
Total share capital at year-end	313.9	98.6%	3,042
Treasury stock at year-end	4.5	1.4%	44
	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.

Changes in share capital are as follows:	Share capital
Share capital as of 1 January 2003	3,123
Purchases of treasury stock	(50)
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	8
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
Balance at 31 December 2004	3,042

23. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2003	26,167	736	26,903
Purchases of treasury stock	(3,011)		(3,011)
Exercised share options	59		59
Allocation of treasury stock to sellers of subsidiaries	401		401
Transferred from accumulated profits		60	60
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 31 December 2004	16,951	796	17,747

24. Translation reserves

	Translation reserves
Balance at 1 January 2003	368
Exchange differences arising on translation of subsidiaries	2,080
Balance at 1 January 2004	2,448
Exchange differences arising on translation of subsidiaries	2,318
Transfered to income due to sale of subsidiaries	(130)
Balance at 31 December 2004	4,636

25. Accumulated profits

	Accumulated profits
Balance at 1 January 2003	9,467
Transferred to statutory reserves	(60)
Net profit for the year	4,661
Balance at 1 January 2004	14,068
Net profit for the year	15,227
Balance at 31 December 2004	29,295

26. 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:

	Number of shares (in Thousands)		
Contract rate (ISK) / conditions / date granted	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	319	0	319
73.7 / conditional / July 2000	3,400	0	3,400
	3,803	1,000	4,803

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 - 31/12 2004		1/1 - 31/12 2003	
	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	6,655	52.80	7,606	52.00
Forfeited during the year	(169)	58.50	(761)	51.92
Exercised during the year	(1,683)	14.45	(190)	24.00
Outstanding at the end of the year	4,803	66.05	6,655	52.80
Exercisable at the end of the year	319	58.50	1,458	25.91

At 31 December 2004, the total outstanding number of shares in Ossur hf. amounted to 318,441,000. The Articles of Association of the Company authorizes the Board of Directors to issue up to 10,000,000 shares for the purposes of the above contracts. This authorization is valid until 24 March 2005. The listed market price per share at period-end 2004 was ISK 76.0 per share.

27. Loans from credit institutions

	Remaining balances 31.12.2004	Remaining balances 31.12.2003
Loans in USD	23,115	25,600
Loans in EUR	10,053	10,199
Loans in ISK	0	25
	33,168	35,824
Current maturities	(981)	(932)
Loans from credit institutions	32,187	34,892

Aggregated annual maturities are as follows:

	31.12.2004	31.12.2003
In 2005 / 2004	981	932
In 2006 / 2005	981	906
In 2007 / 2006	981	906
In 2008 / 2007	28,754	906
In 2009 / 2008	981	30,813
Later	490	1,361
	33,168	35,824

The terms of a USD 23.1 million and EUR 7.4 million loan facilities include various provisions that limits certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

28. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Finance leases in USD	174	704	168	650
Finance leases in EUR	403	547	385	512
Finance leases in ISK	0	49	0	48
	577	1,300	553	1,210
Current maturities	(331)	(494)	(313)	(443)
Obligation under finance leases	246	806	240	767

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
In 2005 / 2004	331	494	313	444
In 2006 / 2005	215	439	209	411
In 2007 / 2006	31	316	31	305
In 2008 / 2007	0	51	0	50
	577	1,300	553	1,210
Less: future finance charges	(24)	(90)		
Remaining balances	553	1,210		

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.

All amounts in thousands of USD 28

29. Other long-term liabilities

	Remaining balances 31.12.2004	31.12.2003
Other liabilities in USD	1,457	2,420
Other liabilities in EUR	137	0
	1,594	2,420
Current maturities	(1,262)	(1,938)
Other long-term liabilities	332	482

Aggregated annual maturities are as follows:

In 2005 / 2004	1,262	1,938
In 2006 / 2005	189	287
In 2007 / 2006	50	52
In 2008 / 2007	48	50
In 2009 / 2008	45	48
Later	0	45
	1,594	2,420

30. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2004	20,529	(2,206)	18,323
Calculated tax for the year	(1,468)	(2,447)	(3,915)
Income tax payable for the year	932	1,929	2,861
Exchange differences	252	(139)	113
At 31 December 2004	20,245	(2,863)	17,382

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

	31.12.2004
Intangible assets	(1,306)
Fixed tangible assets	(782)
Goodwill	13,301
Inventories	2,409
Accrued expenses	89
Reserves and credits	667
Other	(725)
Loss carry-forward	3,729
	17,382

At balance sheet date the consolidation has unused tax losses available for offset against future profits as follows:

	Tax loss	Deferred tax
Available for 15 years	1,276	434
Available indefinitely	9,080	3,295
	10,356	3,729

All amounts in thousands of USD 29

31. Long-term liabilities - due within one year

	31.12.2004	31.12.2003
Loans from credit institutions	981	932
Obligations under finance leases	313	444
Other long-term liabilities	1,262	1,938
	2,556	3,314

32. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2004	392	1,321	1,713
Additional provision in the year	435	501	936
Exchange differences	0	(18)	(18)
Utilisation of provision	(270)	(1,745)	(2,015)
At 31 December 2004	557	59	616

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.

The restructuring provision relates to the sale of Mauch's Inc. assets.

33. Disposal of the net assets of Mauch, Inc. in the United States.

On 31 December 2004 the net assets and operations of Mauch, Inc in the United States were sold for cash consideration of USD 1.569 thousand.

	Disposal 31/12/2004
Net assets at the date of disposal:	
Operating fixed assets	1,186
Current assets	598
Long-term liabilites	(241)
Current liabilities	(150)
	1,393
Total consideration	1,569
Net assets at the date of disposal	(1,393)
Gain on disposal	176
Satisfied by cash	1,575
Accounts payable	(6)
	1,569
Net cash inflow arising on disposal	
Cash consideration	1,575

All amounts in thousands of USD 30

The operations of Mauch, Inc. 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.

Mauch, Inc. contributed USD 2.2 million of revenue and generated loss of USD 810 thousand for the period between the beginning of the year and the date of disposal.

34. Disposal of the subsidiaries Mega Hali Med AB and Linea Orthopedics AB in Sweden

On 31 October 2004 Ossur hf. sold the subsidiaries Mega Hali Med AB and Linea Orthopedics AB in Sweden. The total cash consideration amounted to SEK 264 thousand or USD 37 thousand. At the date of disposal there were no operations in the companies.

	Disposal 31/10/2004
Net assets at the date of disposal:	
Bank balances and cash	40
Total consideration	37
Net assets at the date of disposal	(40)
Translation reserves transferred to income	130
Gain on disposal	127
Satisfied by cash	37
Net cash inflow arising on disposal	
Cash consideration	37
Cash and cash equivalents disposed of	(40)
	(3)

The operations of Mega Hali Med AB and Linea Orthopedics AB 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.

Mega Hali Med AB and Linea Orthopedics AB contributed no revenue and generated loss of USD 10 thousand for the period between the beginning of the year and the date of disposal.

All amounts in thousands of USD 31

Notes to the Financial Statements

35. Operating lease arrangements

	2004	2003
Minimum lease payments under operating leases recognised in Income Statement for the year..	3,358	2,172

At the balance sheet date, the Consolidation had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	31.12.2004	31.12.2003
In 2005 / 2004..	3,547	2,949
In 2006 / 2005..	3,370	2,646
In 2007 / 2006..	2,259	1,876
In 2008 / 2007..	1,454	1,034
In 2009 / 2008..	1,120	525
Later..	1,690	1,006
	13,440	10,036

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Fifteen rental agreements are in place for premises in Reykjavik, the Netherlands, Sweden, United Kingdom and the United States. The leases expire in the years 2005-2020.

36. Cash flow

Patents in the amount of USD 247 thousand were purchased during the period, financed by a long-term loan. These purchases do not affect cash, and are therefore not included in the Consolidated Statements of Cash Flow.

37. Insurances

At year-end the official insurance value of the consolidation's assets is specified as follows:

	Insurance value	Book value
Fixed assets and inventories	42,718	31,099

The consolidation owns buildings situated in California USA.

The consolidation has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 27,950 thousand USD.

38. Litigation

Kenneth L. Heiting and Heiting Tool & Die, Inc. in Wisconsin, USA have sued Ossur North America, Inc. claiming that they had been promised production of components for one of Ossur´s knee products. Ossur is vigorously contesting the claims.

39. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 8 February 2005.

All amounts in thousands of USD 32