Ossur hf

Consolidated Financial Statements
June 30th 2004

Ossur hf.
Grjothalsi 5
110 Reykjavik
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 2004, the operational results for the period 1 January to 30 June 2004, 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 2004 with their signatures.

Reykjavik, 26 July 2004

Board of Directors:

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson

Bengt Kjell

Gunnar Stefansson

Heimir Haraldsson

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		YTD 2004	YTD 2003	2003	2002	2001	2000
Growth							
Net sales	USD '000	62,443	44,418	94,467	81,284	68,380	45,682
EBITDA	USD '000	12,477	5,848	9,428	14,310	12,973	8,904
Profit from operations	USD '000	10,168	4,519	6,112	11,501	10,889	7,560
Net income (1)	USD '000	7,123	3,312	4,661	10,056	8,632	5,188
Total assets	USD '000	103,515	85,825	102,126	71,425	58,201	56,851
Operational performance							
Cash provided by operating activities	USD '000	6,011	4,916	10,383	10,503	10,359	5,797
- as ratio to total debt (2)	%	24	39	23	36	36	30
- as ratio to net profit		0.8	1.5	2.2	1.0	1.2	1.1
Working capital from operating activities	USD '000	11,690	5,354	8,774	14,661	10,771	8,557
- as ratio to long-term debt and stockh. equity (2)	%	19	24	13	30	27	25
Liquidity and solvency							
Quick ratio		1.4	2.8	1.2	1.5	1.2	1.1
Current ratio		2.1	3.5	1.8	2.3	1.9	1.5
Equity ratio	%	48	51	43	56	52	45
Asset utilization and efficiency							
Total asset turnover (2)		1.2	1.1	1.1	1.3	1.3	1.1
Grace period granted (2)	Days	46	52	47	44	44	50
Profitability							
Return on capital (1,2)	%	12	17	9	20	19	8
Return on common equity (1,2)	%	18	25	11	29	32	9
Operating profit as ratio to net sales	%	16	10	6	14	16	16
Net income before taxes as ratio to net sales	%	15	9	6	15	15	13
Net income for the period as ratio to net sales (1)	%	11	7	5	12	12	11
Market							
Value of stock	USD '000	302,401	220,646	201,237	219,584	158,492	255,928
Price/earnings ratio, (P/E) (1,2)		35.7	22.6	43.2	21.8	19.4	53.0
Price/book ratio		6.1	5.0	4.6	5.5	5.2	10.1
Number of shares	Millions	318	328	328	328	328	328
Earnings per Share, (EPS) (1,2)	US Cent	2.65	3.02	1.45	3.12	2.64	1.48
Diluted Earnings per Share, (Diluted EPS) (1,2)	US Cent	2.64	3.01	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 for YTD 2003 and YTD 2004 are based on operations for the preceding 12 months.
3. 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 it's subsidiaries as of 30 June 2004, 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 it's subsidiaries as of 30 June 2004, 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, 26 July 2004

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements
for the periods 1.1.-30.6.2004 and 1.1.-30.6.2003

	Notes	2004 YTD	2003 YTD	2004 Q2	2003 Q2
Net sales	4	62,443	44,418	31,775	22,726
Cost of goods sold		(24,728)	(18,148)	(12,595)	(9,019)
Gross profit		37,715	26,270	19,180	13,707
Other income		332	104	307	22
Sales and marketing expenses		(13,696)	(9,885)	(6,856)	(5,013)
Research and development expenses		(4,476)	(4,852)	(2,156)	(2,595)
General and administrative expenses		(9,707)	(7,118)	(4,853)	(3,572)
Profit from operations		10,168	4,519	5,622	2,549
Interest income/(expenses)	6	(974)	(373)	(696)	(247)
Profit before tax		9,194	4,146	4,926	2,302
Income tax	25	(2,071)	(834)	(1,066)	(394)
Net profit for the period		7,123	3,312	3,860	1,908
Earnings per Share	7				
Basic Earnings per Share		2.24	1.03	1.22	0.59
Diluted Earnings per Share		2.23	1.02	1.21	0.59

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	30.6.2004	31.12.2003
Fixed assets			
Property, plant and equipment	8	15,374	14,950
Goodwill	9	23,481	23,599
Other intangible assets	10	5,266	5,569
Investments held to maturity	12	559	448
Available for sale investments	13	366	476
Deferred tax asset	25	20,274	20,529
		65,320	65,571
Current assets			
Inventories	14	12,789	12,415
Accounts receivable	15	18,680	14,965
Other receivables		4,062	4,586
Investments held for trading	16	0	262
Bank balances and cash		2,664	4,327
		38,195	36,555
Total assets		103,515	102,126

All amounts in thousands of USD 6

30 June 2004 and 31 December 2003

Equity and liabilities

	Notes	30.6.2004	31.12.2003
Stockholders' equity			
Share capital	17	3,075	3,083
Capital reserves	18	23,656	24,412
Translation reserves	19	1,747	2,448
Accumulated profits	20	21,191	14,068
		49,669	44,011
Long-term liabilites			
Loans from credit institutions	22	31,844	34,892
Obligation under finance leases	23	552	767
Other long-term liabilities	24	317	482
Deferred tax liabilities	25	2,509	2,206
		35,222	38,347
Current liabilites			
Long-term liabilities - due within one year	26	2,928	3,314
Accounts payable		4,930	4,263
Tax liabilities		653	606
Other current liabilities		8,915	9,872
Provisions	27	1,198	1,713
		18,624	19,768
Total equity and liabilities		103,515	102,126

All amounts in thousands of USD 7

Consolidated Statements of Cash Flows
for the periods 1.1.-30.6.2004 and 1.1.-30.6.2003

	Notes	YTD 2004	YTD 2003
Cash flows from operating activities			
Profit from operations		10,168	4,519
Depreciation and amortization	8, 10	2,309	1,329
Gain on disposal of operating fixed assets		5	(4)
Changes in current assets and liabilities		(4,251)	324
Cash generated by operations		8,231	6,168
Interest received		18	74
Interest paid		(785)	(492)
Taxes paid		(1,453)	(834)
Net cash provided by operating activities		6,011	4,916
Cash flows from investing activities			
Purchase of fixed assets	8, 10	(2,660)	(2,101)
Proceeds from sale of fixed assets		149	95
Acquisition of subsidiaries		(911)	0
Purchases of investments held to maturity	12	(108)	(115)
Installments of bonds	12	6	167
Purchases of available for sale investments	13	0	(5)
Proceeds from sale of available for sale investments	13	106	11
Purchases of trading investments	16	(137)	(2,972)
Proceeds from sale of trading investments	16	407	2,876
Net cash used in investing activities		(3,148)	(2,044)
Cash flows from financing activities			
Borrowing of long-term liabilities		6,100	20,000
Repayments of long-term liabilities		(9,570)	(9,861)
Purchases of treasury stock		(1,002)	0
Exercised share options		29	61
Net cash provided by financing activities		(4,443)	10,200
Net change in cash and cash equivalents		(1,580)	13,072
Effects of foreign exchange adjustments		(83)	154
Cash and cash equivalents at beginning of year		4,327	11,076
Cash and cash equivalents at end of period		2,664	24,302
Other information			
Net cash provided by operating activities:			
Net profit for the period		7,123	3,312
Items not affecting cash		4,567	2,042
Working capital provided by operating activities		11,690	5,354
Changes in current assets and liabilities		(5,679)	(438)
Net cash provided by operating activities		6,011	4,916

All amounts in thousands of USD 8

Consolidated Statement of changes in Equity for the period ended 30 June 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................			(701)		(701)
Net gains / losses not recognised in the income statement......................	0	0	(701)	0	(701)
Purchases of treasury stock.................	(14)	(988)			(1,002)
Exercised share options.......................	1	28			29
Allocation of treasury stock to sellers of subsidiaries.....................	5	204			209
Net profit for the period......................				7,123	7,123
Balance at 30 June 2004......................	3,075	23,656	1,747	21,191	49,669

All amounts in thousands of USD 9

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, Western Europe and Japan, 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 assembles prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees; at Mauch, Inc. in Dayton, Ohio, which manufactures components for spinal implants, and at Ossur hf. in Iceland, which manufactures sockets, prosthetic feet and components. Orthotic devices are manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada, Generation II in Seattle in the US and Ossur Nordic, AB in Uppsala, Sweden. The parent company operates 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 five independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada and Seattle in the US, 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 50% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

More than 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 4-5 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. These assets are amortized by 10-20% annually. 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.

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) 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.

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.

Notes to the Financial Statements

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 expenditue 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 2004	**Q1 2004**	**Q4 2003**	**Q3 2003**	**Q2 2003**
Net sales	31,775	30,668	27,651	22,398	22,726
Cost of goods sold	(12,595)	(12,133)	(12,408)	(9,676)	(9,019)
Gross profit	19,180	18,535	15,243	12,722	13,707
Other income	307	25	122	40	22
Sales and marketing exp.	(6,856)	(6,840)	(7,273)	(4,080)	(5,013)
Research and develop. exp.	(2,156)	(2,320)	(2,750)	(1,990)	(2,595)
General and admin. exp.	(4,853)	(4,854)	(6,691)	(3,750)	(3,572)
Profit/loss from operations	5,622	4,546	(1,349)	2,942	2,549
Interest income/(expenses)	(696)	(278)	80	(114)	(247)
Profit/loss before tax	4,926	4,268	(1,269)	2,828	2,302
Income tax	(1,066)	(1,005)	352	(562)	(394)
Net profit/loss for the period ...	3,860	3,263	(917)	2,266	1,908
EBITDA	6,738	5,739	(78)	3,658	3,206

4. Net sales

Net sales are specified as follows according to markets:

	YTD 2004	YTD 2003
North America	33,416	22,597
Europe, other...	16,566	11,641
Nordic..	8,543	7,046
International markets..	3,918	3,134
	62,443	44,418

Net sales are specified as follows according to product lines:

	YTD 2004	YTD 2003
Prosthetics..	45,928	39,485
Orthotics..	15,408	3,401
Other products...	1,107	1,532
	62,443	44,418

All amounts in thousands of USD 15

5. Business and geographical segments

Segment information about the consolidation businesses is presented below, according to location of customers:

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	42,087	16,566	31,964	3,918	(32,092)	62,443
Net profit						
Segment result	2,619	(775)	8,100	(349)	(2,472)	7,123
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	30.6.2004	30.6.2004	30.6.2004	30.6.2004	30.6.2004	30.6.2004
Assets						
Segment assets	84,945	20,767	107,627	1,193	(111,017)	103,515
Liabilities						
Segment liabilities	90,693	15,770	46,495	0	(99,112)	53,846

2003	North America YTD 2003	Europe, other YTD 2003	Nordic YTD 2003	International markets YTD 2003	Eliminations YTD 2003	Consolidated YTD 2003
Revenue						
External sales	22,597	11,641	7,046	3,134	0	44,418
Inter-segment sales	5,765	0	13,840	0	(19,605)	0
Total revenue	28,362	11,641	20,886	3,134	(19,605)	44,418
Net profit						
Segment result	2,064	(965)	2,548	(263)	(72)	3,312
Other information						
Capital additions	1,080	219	802	0	0	2,101
Depreciation and amortisation	646	127	553	3	0	1,329
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

All amounts in thousands of USD 16

6. Interest income / (expenses)

	YTD 2004	YTD 2003
Income from investments:		
Interest on bank deposits	17	46
Profit from investments held to maturity	9	49
Loss / profit from available for sale investments	(4)	43
Profit / loss from trading investments	8	(3)
Other interest income	1	28
	31	163
Finance costs:		
Interest on bank loans	(711)	(455)
Interest on obligations under finance leases	(27)	(31)
Other interest expenses	(38)	(33)
	(776)	(519)
Exchange rate differences	(229)	(17)
	(974)	(373)

7. Earnings per share

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

	YTD 2004	YTD 2003
Net profit for the last 6 month period	7,123	3,312
Total average number of shares outstanding during the period (in thousands)	317,542	322,605
Total average number of shares including potential shares (in thousands)	318,871	323,862
Basic Earnings per Share (US cent)	2.24	1.03
Diluted Earnings per Share (US cent)	2.23	1.02

	Q2 2004	Q2 2003
Net profit for Q2	3,860	1,908
Total average number of shares outstanding during Q2 (in thousands)	317,372	322,931
Total average number of shares including potential shares (in thousands)	318,792	324,171
Basic Earnings per Share (US cent)	1.22	0.59
Diluted Earnings per Share (US cent)	1.21	0.59

8. 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		76	(76)	0
Adjusted opening balance	3,598	17,424	8,473	29,495
Additions		1,379	1,103	2,482
Exchange differences	(16)	(204)	(66)	(286)
Eliminated on disposal		(238)	(69)	(307)
Fully depreciated assets		(1,120)	(1,481)	(2,601)
At 30 June 2004	3,582	17,241	7,960	28,783
Accumulated depreciation				
At 1 January 2004	403	8,917	5,225	14,545
Charge for the period	59	1,092	622	1,773
Exchange differences		(130)	(25)	(155)
Eliminated on disposal		(108)	(45)	(153)
Fully depreciated assets		(1,120)	(1,481)	(2,601)
At 30 June 2004	462	8,651	4,296	13,409
Carrying Amount				
At 30 June 2004	3,120	8,590	3,664	15,374
At 31 December 2003	3,195	8,507	3,248	14,950

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

	YTD 2004	YTD 2003
Cost of goods sold	1,012	599
Sales and marketing expenses	85	27
Research and development expenses	138	136
General and administrative expenses	538	491
	1,773	1,253

9. Goodwill

	30.6.2004
Cost	
At 1 January 2004	23,599
Arising on a acquisition of a subsidiary	459
Exchange differences	(577)
At 30 June 2004	23,481
Carrying amount	
At 30 June 2004	23,481

All amounts in thousands of USD 18

Notes to the Financial Statements

10. Other intangible assets

	Patent	Development-cost	Other	Total
Cost				
At 1 January 2004	3,578	458	2,609	6,645
Additions	425			425
Exchange differences	(104)		(111)	(215)
At 30 June 2004	3,899	458	2,498	6,855
Amortization				
At 1 January 2004	769	46	261	1,076
Charge for the period	244	46	246	536
Exchange differences	(11)		(12)	(23)
At 30 June 2004	1,002	92	495	1,589
Carrying Amount				
At 30 June 2004	2,897	366	2,003	5,266
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:

	YTD 2004	YTD 2003
Research and development expenses	144	58
Sales and marketing expenses	164	0
Cost of goods sold	46	0
General and administrative expenses	182	18
	536	76

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
Ossur Engineering, AB	Sweden	100%	Manufacturer
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Mega Hali Med, AB	Sweden	100%	No operation
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%	Manufacturer, sales, distribution and services
Generation II USA, Inc	USA	100%	Manufacturer, sales
Linea Orthopedics, AB	Sweden	100%	No operation
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%	Sales, distribution and services
Ossur UK, Ltd	Great Britain	100%	No operation
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services

All amounts in thousands of USD 19

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

12. Investments held to maturity

	Held to maturity
Balance at 1 January 2003	523
Investments during the year	128
Installments of bonds	(261)
Exchange differences	58
At 1 January 2004	448
Investments during the period	108
Installments of bonds	(6)
Exchange differences	9
At 30 June 2004	559

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.

13. 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 period	(106)
Fair value and exchange rate adjustments	(4)
At 30 June 2004	366

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

	30.6.2004	31.12.2003
Raw material	6,149	6,585
Work in progress	873	248
Finished goods	5,767	5,582
	12,789	12,415

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,727 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,373 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

All amounts in thousands of USD 20

Notes to the Financial Statements

15. Accounts receivable

	30.6.2004	31.12.2003
Nominal value	20,053	16,372
Allowances for doubtful accounts	(802)	(843)
Allowances for sales return	(571)	(564)
	18,680	14,965

16. 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 period	137
Disposed of during the period	(407)
Fair value and exchange rate adjustments	8
At 30 June 2004	0

17. Share capital

	Shares	Ratio	Nominal value
Total share capital at period-end	317.3	99.7%	3,075
Treasury stock at period-end	1.1	0.3%	11
	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	(14)
Exercised share options	1
Allocation of treasury stock to sellers of subsidiaries	5
Balance at 30 June 2004	3,075

All amounts in thousands of USD 21

18. 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	(988)		(988)
Exercised share options	28		28
Allocation of treasury stock to sellers of subsidiaries	204		204
Balance at 30 June 2004	22,860	796	23,656

19. 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	(701)
Balance at 30 June 2004	1,747

20. 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 period	7,123
Balance at 30 June 2004	21,191

21. 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	2004	2005	2006	Total
3.125 / conditional / July 1999	1,287	0	0	1,287
24.0 / conditional / September 2000	0	84	0	84
46.0 / conditional / June 2001	0	0	1,000	1,000
58.5 / conditional / January 2001	640	0	0	640
73.7 / conditional / July 2000	0	3,400	0	3,400
	1,927	3,484	1,000	6,411

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 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 period	6,655	52.80	7,606	52.00
Forfeited during the period	(160)	58.50	(761)	51.92
Exercised during the period	(84)	24.00	(190)	24.00
Outstanding at the end of the period	6,411	53.04	6,655	52.80
Exercisable at the end of the period	1,338	22.99	1,458	25.91

At 30 June 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 69.0 per share.

22. Loans from credit institutions

	Remaining balances	
	30.6.2004	31.12.2003
Loans in USD	23,325	25,600
Loans in EUR	9,393	10,199
Loans in ISK	13	25
	32,731	35,824
Current maturities	(887)	(932)
Loans from credit institutions	31,844	34,892

Aggregated annual maturities are as follows:

In 1.7.2004 - 30.6.2005 / 2004	887	932
In 1.7.2005 - 30.6.2006 / 2005	874	906
In 1.7.2006 - 30.6.2007 / 2006	874	906
In 1.7.2007 - 30.6.2008 / 2007	28,348	906
In 1.7.2008 - 30.6.2009 / 2008	874	30,813
Later	874	1,361
	32,731	35,824

23. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	30.6.2004	31.12.2003	30.6.2004	31.12.2003
Finance leases in USD	567	704	530	650
Finance leases in EUR	441	547	418	512
Finance leases in ISK	12	49	12	48
	1,020	1,300	960	1,210
Current maturities	(449)	(494)	(408)	(443)
Obligation under finance leases	571	806	552	767

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	30.6.2004	31.12.2003	30.6.2004	31.12.2003
In 1.7.2004 - 30.6.2005 / 2004	449	494	408	444
In 1.7.2005 - 30.6.2006 / 2005	376	439	358	411
In 1.7.2006 - 30.6.2007 / 2006	195	316	194	305
In 1.7.2007 - 30.6.2008 / 2007	0	51	0	50
	1,020	1,300	960	1,210
Less: future finance charges	(60)	(90)		
Remaining balances	960	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.

24. Other long-term liabilities

	Remaining balances	
	30.6.2004	31.12.2003
Other liabilities in USD	1,950	2,420
Current maturities	(1,633)	(1,938)
Other long-term liabilities	317	482

Aggregated annual maturities are as follows:

In 1.7.2004 - 30.6.2005 / 2004	1,633	1,938
In 1.7.2005 - 30.6.2006 / 2005	174	287
In 1.7.2006 - 30.6.2007 / 2006	50	52
In 1.7.2007 - 30.6.2008 / 2007	48	50
In 1.7.2008 - 30.6.2009 / 2008	45	48
Later	0	45
	1,950	2,420

All amounts in thousands of USD 24

25. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2004	20,529	(2,206)	18,323
Calculated tax for the period	(705)	(1,366)	(2,071)
Income tax payable for the period	514	991	1,505
Exchange differences	(64)	72	8
At 30 June 2004	20,274	(2,509)	17,765

26. Long-term liabilities - due within one year

	30.6.2004	31.12.2003
Loans from credit institutions	887	932
Obligations under finance leases	408	444
Other long-term liabilities	1,633	1,938
	2,928	3,314

27. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2004	392	1,321	1,713
Additional provision in the period	175	438	613
Exchange differences	0	(16)	(16)
Utilisation of provision	(107)	(1,005)	(1,112)
At 30 June 2004	460	738	1,198

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.

A restructuring provision was established in 2003, relating to planned changes in connection with the acquisition of the Generation II Group and other reorganisation of the company.

28. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 27 July 2004.

All amounts in thousands of USD 25