Ossur hf.

Consolidated Financial Statements

2005

Ossur hf.
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110 Reykjavik
Id-no. 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 2005. Ossur Financial statements are prepared in accordance with IFRS.

Ossur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics and bracing and support solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada, Holland, the UK, Sweden and Australia. The Company sells its products world wide, but the principal market areas are North America, Europe and Asia. In the year 2005, 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, Ossur UK Holdings in the UK, Ossur Europe B.V. and Ossur Asia-Pacific in Australia.

The total sales of the Ossur Consolidation amounted to USD 160.7 million, compared to USD 124.4 million in the preceding year. This represents an increase in sales of approximately 29%. Net profit amounted to USD 11.7 million compared to USD 15.2 million in 2004. Earnings per Share (EPS) amounted to US cents 3.53 compared to US cents 4.80 in 2004. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 25.8 million compared to USD 25 million in the preceding year.

The total assets of the Ossur Consolidation amounted to USD 408 million at year-end, liabilities were 255.2 million, and equity was 152.8 million. The equity ratio at year-end was 37%, compared to 50% the preceding year.

In the course of the year the Company employed on average 680 employees, of which 235 were employed by the parent company in Iceland. Throughout 2004 an average of 568 employees were employed with the Company, of which 213 were employed by the parent company.

During the year, the Company acquired no treasury shares but handed over 3.5 million shares to meet stock option agreements. The share price of the Company was 114 at year-end, compared to 76.5 at the beginning of the year. The market value of the Company at year-end was 700 million USD and increased 77% over the year. At year-end, shareholders in Ossur hf. numbered 3,156, compared to 3,376 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: William Demant Invest A/S, with 36.88% and Eyrir Invest ehf. Holding 14.6%

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 2006. 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 2005 with their signatures.

Reykjavik, February 6, 2006

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson

Bengt Kjell

Thordur Magnusson

Niels Jacobsen

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		2005	2004	2003	2002	2001
Growth						
Net sales	USD '000	160,729	124,399	94,467	81,284	68,380
EBITDA	USD '000	25,832	25,045	9,428	14,310	12,973
Profit from operations	USD '000	16,525	20,374	6,112	11,501	10,889
Employees	Number	680	568	480	431	392
Net income	USD '000	11,688	15,227	4,661	10,056	8,632
Total assets	USD '000	407,986	108,915	102,126	71,425	58,201
Operational performance						
Cash provided by operating activities	USD '000	15,481	16,600	10,383	10,503	10,359
- as ratio to total debt	%	10	30	23	36	36
- as ratio to net profit		1.3	1.1	2.2	1.0	1.2
Working capital from operating activities	USD '000	18,954	23,095	8,774	14,661	10,771
- as ratio to long-term debt and stockh. Equity	%	8	27	13	30	27
Liquidity and solvency						
Quick ratio		1.4	1.4	1.2	1.5	1.2
Current ratio		2.1	2.2	1.8	2.3	1.9
Equity ratio	%	37	50	43	56	52
Asset utilization and efficiency						
Net sales pr. employee	USD '000	236	219	197	189	174
Total asset turnover		0.6	1.2	1.1	1.3	1.3
Grace period granted	Days	44	44	47	44	44
Profitability						
Return on capital	%	10	20	9	20	19
Return on common equity	%	15	31	11	29	32
Operating profit as ratio to net sales	%	10	16	6	14	16
Net income before taxes as ratio to net sales	%	8	15	6	15	15
Net income for the period as ratio to net sales	%	7	12	5	12	12
Market						
Value of stock	USD '000	695,125	395,514	201,237	219,584	158,492
Price/earnings ratio, (P/E)		59.5	26.0	43.2	21.8	19.4
Price/book ratio		4.5	7.2	4.6	5.5	5.2
Number of shares	Millions	385	318	328	328	328
Earnings per Share, (EPS)	US Cent	3.53	4.80	1.45	3.12	2.64
Diluted Earnings per Share, (Diluted EPS)	US Cent	3.52	4.80	1.44	3.10	2.63

Notes

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, 2005, 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, 2005 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, February 6, 2006

Deloitte hf.

Heimir Thorsteinsson
State authorized public accountant

Thorvardur Gunnarsson
State authorized public accountant

Consolidated Income Statements for the years 2005 and 2004

	Notes	2005	2004	2005 Q4	2004 Q4
Net sales	4	160,729	124,399	49,590	31,282
Cost of goods sold		(66,338)	(49,555)	(20,367)	(12,938)
Gross profit		94,391	74,844	29,223	18,344
Other income	7	1,870	1,049	277	497
Sales and marketing expenses		(38,103)	(26,772)	(13,521)	(6,830)
Research and development expenses		(12,408)	(9,066)	(4,057)	(2,386)
General and administrative expenses		(24,806)	(19,681)	(7,680)	(4,930)
Restructuring expenses	10	(4,419)	0	(304)	0
Profit from operations		16,525	20,374	3,938	4,695
Financial income/(expenses)	11	(4,280)	(1,232)	(1,737)	(468)
Profit before tax		12,245	19,142	2,201	4,227
Income tax	12	(557)	(3,915)	887	(801)
Net profit for the year		11,688	15,227	3,088	3,426
Earnings per Share	13				
Basic Earnings per Share		3.53	4.80	0.81	1.09
Diluted Earnings per Share		3.52	4.80	0.81	1.08

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	31.12.2005	31.12.2004
Fixed assets			
Property, plant and equipment	14	22,130	15,994
Goodwill	15	232,134	25,095
Other intangible assets	16	46,694	5,375
Loans and receivables	18	780	824
Available for sale investments	19	593	411
Deferred tax asset	30	23,542	20,245
		325,873	67,944
Current assets			
Inventories	20	25,529	15,105
Accounts receivable	21	28,314	16,026
Other receivables	21	7,356	5,543
Bank balances and cash	21	20,914	4,297
		82,113	40,971
Total assets		407,986	108,915

All amounts in thousands of USD 7

31 December 2005 and 2004

Equity and liabilities

	Notes	31.12.2005	31.12.2004
Stockholders' equity			
Share capital	22	4,160	3,042
Capital reserves	23	104,162	17,747
Translation reserves	24	3,771	4,636
Accumulated profits	25	40,736	29,295
		152,829	54,720
Long-term liabilities			
Loans from credit institutions	27	185,147	32,187
Obligation under finance leases	28	32	240
Other long-term liabilities	29	2,350	332
Deferred tax liabilities	30	27,832	2,863
		215,361	35,622
Current liabilities			
Long-term liabilities - due within one year	31	11,048	2,556
Accounts payable		8,844	3,417
Tax liabilities		917	2,425
Other current liabilities		13,508	9,559
Provisions	32	5,479	616
		39,796	18,573
Total equity and liabilities		407,986	108,915

All amounts in thousands of USD 8

Consolidated Statements of Cash Flows for the years 2005 and 2004

	Notes	2005	2004
Cash flows from operating activities			
Profit from operations		16,525	20,374
Depreciation and amortization	14, 16	9,307	4,671
Gain on disposal of assets		(372)	(433)
Other calculated items		(1,000)	0
Changes in current assets and liabilities		526	(5,439)
Cash generated by operations		24,986	19,173
Interest received		486	76
Interest paid		(5,414)	(1,500)
Taxes paid		(4,577)	(1,149)
Net cash provided by operating activites		15,481	16,600
Cash flows from investing activities			
Purchase of fixed assets	14, 16	(7,990)	(6,609)
Proceeds from sale of fixed assets		142	813
Acquisition of subsidiaries	33 - 36	(242,969)	(911)
Sale of subsidiaries	37	854	1,572
Additions in loans and receivables		(25)	(362)
Installments of loans and receivables	18	184	101
Proceeds from sale of available for sale investments	19	145	117
Purchases of trading investments		0	(137)
Proceeds from sale of trading investments		0	408
		(249,659)	(5,008)
Cash flows from financing activities			
Borrowing of long-term liabilities		204,018	20,620
Repayments of long-term liabilities		(40,381)	(25,346)
Purchases of treasury stock		0	(7,255)
Paid in share capital	22	83,357	0
Exercised share options	22, 23	3,929	340
		250,923	(11,641)
Net change in cash and cash equivalents		16,745	(49)
Effects of foreign exchange adjustments		(128)	19
Cash and cash equivalents at beginning of year		4,297	4,327
Cash and cash equivalents at end of year		20,914	4,297
Other information:			
Net cash provided by operating activities:			
Net profit for the year		11,688	15,227
Items not affecting cash		7,266	7,868
		18,954	23,095
Changes in current assets and liabilities		(3,473)	(6,495)
		15,481	16,600

All amounts in thousands of USD

Consolidated Statement of changes in Equity for the period ended 31 December 2005

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
Balance at 1 January 2004	3,083	24,412	2,448	14,068	44,011
Translation difference of shares in foreign companies			2,318		2,318
Net gains / losses not recognised in the income statement	0	0	2,318	0	2,318
Transferred to income due to sale of subsidiaries			(130)		(130)
Purchases of treasury stock	(62)	(7,193)			(7,255)
Exercised share options	16	324			340
Allocation of treasury stock to sellers of subsidiaries	5	204			209
Net profit for the year				15,227	15,227
Balance at 1 January 2005	3,042	17,747	4,636	29,295	54,720
Translation difference of shares in foreign companies			(865)		(865)
Net gains / losses not recognised in the income statement	0	0	(865)	0	(865)
Exercised share options	33	3,896			3,929
Paid in share capital	1,085	82,272			83,357
Net profit for the year				11,688	11,688
Transferred to statutory reserves		247		(247)	0
Balance at 31 December 2005	4,160	104,162	3,771	40,736	152,829

All amounts in thousands of USD

Notes to the Financial Statements

1. Operations

Ossur hf. is a global orthopaedics company specializing in products and services in the areas of prosthetic, braces and support. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs and braces and various orthopaedic support products. The principal market areas of the Company are North America, Europe and Asia which are served by companies in the United States, Canada, Sweden, the Netherlands, the UK and in Australia in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in eleven places during the period: at Ossur North America, Inc. in Aliso Viejo, California, at Royce Medical, Inc. in Camarillo, California, Thorofare and Moorestown in New Jersey, at Ossur Engineering, Inc. in Albion, Michigan, at Generation II in Vancouver, Canada and Generation II in Seattle in the US, Blackburn in the UK and at Ossur hf. in Iceland. Part of the production is outsourced to China and Taiwan.

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 Ossur North America, Inc. in California, Royce Medical, Inc. in California and New Jersey, the Generation II Operations in Canada, Ossur Europe, B.V. in the Netherlands, Medistox, Ltd. and Technology in Motion, Ltd. in the UK, Össur Nordic, AB in Sweden and Ossur Asia Pacific in Australia.

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 properties and 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.

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.

Business Combination

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.

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. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 the extent as possible and that way keep risk within an acceptable level.

Long term financing is managed from Corporate Finance and individual subsidiaries do not engage in substantial external financing contracts with banks or credit institutions.

Around 60% of the Company's long term debt is in the form of bullet loans that will mature 2011 and 2012. Interest is paid periodically. This limits considerably the cash flow and the liquidity risk for the company for the next years. However, the loans are subject to financial covenants the major ones being debt to EBITDA ratio and equity ratio. To limit interest risk the company has engaged in interest rate swap agreement for long term loans (see note on loans), fixing interest at 5.99% including margin for the remaining term of the loans.

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 recognised 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 effective 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 period is recognised as an expense.

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, it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

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

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

Impairment of tangible and intangible assets excluding goodwill

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 higher 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.

Investments

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

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

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

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. 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.

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 the Company 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.

Notes to the Financial Statements

3. Quarterly statements

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Total 2005
Net sales	31,150	35,422	44,567	49,590	160,729
Cost of goods sold	(12,501)	(13,863)	(19,607)	(20,367)	(66,338)
Gross profit	18,649	21,559	24,960	29,223	94,391
Other income	76	510	1,007	277	1,870
Sales and marketing exp.	(6,993)	(7,002)	(10,587)	(13,521)	(38,103)
Research and develop. exp.	(2,435)	(2,767)	(3,149)	(4,057)	(12,408)
General and admin. exp.	(4,896)	(5,800)	(6,430)	(7,680)	(24,806)
Restructuring expenses	0	0	(4,115)	(304)	(4,419)
Profit from operations	4,401	6,500	1,686	3,938	16,525
Financial income/(expenses)	(411)	(271)	(1,861)	(1,737)	(4,280)
Profit before tax	3,990	6,229	(175)	2,201	12,245
Income tax	(817)	(1,614)	987	887	(557)
Net profit for the period	3,173	4,615	812	3,088	11,688
EBITDA	5,533	7,758	4,610	7,931	25,832

4. Net sales

Net sales are specified as follows according to markets:

	2005	2004
North America	93,264	65,899
Europe, other	37,370	32,620
Nordic	18,421	17,722
International markets	11,674	8,158
	160,729	124,399

Net sales are specified as follows according to currency:

	2005	2004
Canadian dollar, CAD	10,145	9,187
Swiss Franc, CHF	204	958
Euro, EUR	33,344	25,504
British Pound, GBP	2,601	7,482
Icelandic Krona, ISK	2,443	2,178
Australian dollar, AUD	772	0
Norwegian Krona, NOK	5,129	4,950
Swedish Krona, SEK	10,007	10,265
US Dollar, USD	96,084	63,875
	160,729	124,399

All amounts in thousands of USD 16

5. Geographical segments

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

2005	North America 2005	Europe, other 2005	Nordic 2005	International markets 2005	Eliminations 2005	Consolidated 2005
Revenue						
External sales	93,264	37,370	18,421	11,674	0	160,729
Inter-segment sales	16,470	432	49,330	0	(66,232)	0
Total revenue	109,734	37,802	67,751	11,674	(66,232)	160,729

Inter-segment sales are calculated from external sales prices.

Result	North America 2005	Europe, other 2005	Nordic 2005	International markets 2005	Eliminations 2005	Consolidated 2005
Segment result	8,861	277	7,984	(960)	363	16,525
Financial income/(expenses)						(4,280)
Profit before tax						12,245
Income tax						(557)
Net profit						11,688
Other information						
Capital additions	3,711	361	3,901	17	0	7,990
Depreciation and amortization	6,778	639	1,888	2	0	9,307

Balance sheet	31.12.2005	31.12.2005	31.12.2005	31.12.2005	31.12.2005	31.12.2005
Assets						
Segment assets	452,510	51,830	383,036	2,931	(482,321)	407,986
Liabilities						
Segment liabilities	308,048	39,035	229,184	1,857	(322,967)	255,157

All amounts in thousands of USD

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
Net profit						
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						
Capital additions	1,109	1,039	2,996	0	(105)	5,039
Depreciation and amortization	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

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:

	2005	2004
Prosthetics	103,655	91,549
Orthotics	56,168	30,153
Other products	906	2,697
	160,729	124,399

7. Other Income

Included in other income is a gain amounting to USD 1 million which relates to the acquisition of Century XXII Innovations and related companies from the year 2000. Part of the purchase price was conditional upon the achievement of specified sales results in the years to come. In the recording of the acquisition it was expected that the conditions would be fulfilled and therefore an obligation was recorded. It is now certain that these conditions were not fulfilled and therefore the amount will not be payable which results as a recorded gain among other income.

All amounts in thousands of USD

8. Salaries

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

	2005	2004
Salaries	43,726	30,334
Salary-related expenses	11,204	8,946
	54,930	39,280
Average number of positions	680	568

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

	2005	2004
Cost of goods sold	20,166	17,487
Sales and marketing	18,518	10,749
Research and development	6,011	3,956
General and administrative	10,235	7,088
	54,930	39,280

Management salaries and benefits

Board of Directors:	Salaries and related exp.	Exercised share options	Outstanding share options	Shares owned
Petur Gudmundarson Chairman of the Board	43	300,000	0	1,786,369
Ossur Kristinsson Vice Chairman	71	150,000	0	36,926,769
Bengt Kjell	17	0	0	0
Gunnar Stefansson	17	150,000	0	659,170
Heimir Haraldsson	17	0	0	0
Kristjan Tomas Ragnarsson	17	150,000	0	569,539
Niels Jacobsen	0	0	0	0
Sigurbjorn Thorkelsson	17	150,000	0	528,184
Thordur Magnusson	0	0	0	8,426
Excecutive committee:				
Jon Sigurdsson President and CEO	771	2,000,000	0	24,458,841
Hjorleifur Palsson CFO	245	0	1,000,000	300,000
Egill Jonsson VP of Manufacturing & Operations	295	0	0	18,449
Arni Alvar Arason VP of Sales and Marketing	295	250,000	0	2,136,384
Hilmar Bragi Janusson VP of R&D	295	150,000	100,000	3,712,847
Eythor Bender Presid. of Ossur North America	332	0	75,000	952,900
Olafur Gylfason Man. Director of Ossur Europe	280	0	0	476,368

Share options exercised during the year were all exercised at a share price of ISK 73.7. Outstanding share options of other executives were made during the years 2000 - 2001 and are exercisable in the year 2006 with the condition that the relevant executive is still a member of the management. The share options were made at a share price of ISK 46, ISK 73.7 and ISK 58.5. No dividends, loans or commitments have been extended to these persons.

All amounts in thousands of USD

9. Fees to Auditors

	2005	2004
Audit of financial statements	322	190
Review of interim financial statements	118	95
Other services	893	121
	1,333	406

10. Restructuring costs

In connection with the acquisition of Royce Medical Holdings Inc. in the US and to some extent IMP Holding, Ltd, in the UK Ossur will incur one time restructuring and integration cost of USD 4,419 thousand that is expensed in the income statement. The cost will cover areas like integration of manufacturing, restructuring and consolidation of Finance and back office functions and severance payments. About ¾ of the cost will be incurred in the US and ¼ in Europe.

11. Financial income / (expenses)

	2005	2004
Income from investments:		
Interest on bank deposits	449	54
Profit from loans and receivables	1	115
Profit from available for sale investments	90	52
Profit from trading investments	0	9
Other interest income	28	26
	568	256
Finance costs:		
Interest on bank loans	(6,008)	(1,441)
Interest on obligations under finance leases	(24)	(48)
Other interest expenses	(208)	(128)
	(6,240)	(1,617)
Exchange rate differences	1,392	129
	(4,280)	(1,232)

All amounts in thousands of USD

12. Income tax expense

Income tax expenses are specified as follows:

	2005	2004
Current tax expenses	2,358	3,336
Deferred tax expenses	(1,315)	465
Exchange rate difference	(486)	114
	557	3,915

Reconciliation of effective tax rate:

	2005		2004	
	Amount	%	Amount	%
Profit before tax	12,245		19,142	
Tax at the domestic income tax (18%)	2,204	18%	3,446	18%
Effect of different tax rates of other jurisdictions	(1,062)	(9%)	(85)	(0%)
Effect of non taxable income	(180)	(1%)	0	0%
Tax effect of expenses that are not deductable	139	1%	64	0%
Equity transactions effecting taxes	(471)	(4%)	176	1%
Other changes	(73)	(1%)	314	2%
	557	5%	3,915	20%

13. Earnings per share

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

	2005	2004
Net profit for the period	11,688	15,227
Total average number of shares outstanding during the period (in thousands)	331,365	317,001
Total average number of shares including potential shares (in thousands)	331,933	317,363
Basic Earnings per Share (US cent)	3.53	4.80
Diluted Earnings per Share (US cent)	3.52	4.80

	Q4 2005	Q4 2004
Net profit for Q4	3,088	3,426
Total average number of shares outstanding during Q4 (in thousands)	381,246	315,348
Total average number of shares including potential shares (in thousands)	381,920	316,433
Basic Earnings per Share (US cent)	0.81	1.09
Diluted Earnings per Share (US cent)	0.81	1.08

14. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2005	3,161	16,845	9,097	29,103
Additions	0	3,492	4,262	7,754
Acquired on acquisition of subsidiary	0	2,417	850	3,267
Exchange differences	0	(204)	(132)	(336)
Eliminated on disposal	0	(526)	(110)	(636)
Fully depreciated assets	0	(399)	(85)	(484)
At 31 December 2005	3,161	21,625	13,882	38,668
Accumulated depreciation				
At 1 January 2005	502	8,149	4,458	13,109
Charge for the year	108	2,375	1,835	4,318
Exchange differences	0	(21)	(32)	(53)
Eliminated on disposal	0	(335)	(17)	(352)
Fully depreciated assets	0	(399)	(85)	(484)
At 31 December 2005	610	9,769	6,159	16,538
Carrying Amount				
At 31 December 2005	2,551	11,856	7,723	22,130
At 31 December 2004	2,659	8,696	4,639	15,994

The following rates are used for the depreciation of property, plant and equipment:

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

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 607 thousand (2004: USD 771 thousand) in respect of assets held under finance leases.

The consolidation has pledged certain buildings, machinery and equipments to secure general banking facilities granted.

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

	2005	2004
Cost of goods sold	2,315	1,986
Sales and marketing expenses	209	138
Research and development expenses	141	231
General and administrative expenses	1,653	1,197
	4,318	3,552

All amounts in thousands of USD

15. Goodwill

	31.12.2005
Cost	
At 1 January 2005	25,095
Additions	49
Arising on acquisition of subsidiaries	206,781
Exchange differences	209
At 31 December 2005	232,134
Carrying amount	
At 31 December 2005	232,134
At 31 December 2004	25,095

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

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Company prepares cash flow forecasts based on actual operating results and derived from the most recent financial budgets approved by management for the next five years. Cash flows for future periods are extrapolated using a 2-4 per cent growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. A pre-tax discount rate of 9-11 per cent has been used in discounting the projected cash flows.

16. Other intangible assets

	Patent	Trademark	Other	Total
Cost				
At 1 January 2005	4,418	0	3,224	7,642
Additions	74	0	162	236
Arising on acquisition of a subsidiary	8,460	10,528	26,992	45,980
Exchange differences	100	(10)	74	164
At 31 December 2005	13,052	10,518	30,452	54,022
Amortization				
At 1 January 2005	1,334	0	933	2,267
Charge for the year	1,088	553	3,348	4,989
Exchange differences	38	(1)	35	72
At 31 December 2005	2,460	552	4,316	7,328
Carrying Amount				
At 31 December 2005	10,592	9,966	26,136	46,694
At 31 December 2004	3,084	0	2,291	5,375

All amounts in thousands of USD

The intangible assets included above have finite useful lives, over which the assets are amortized.

These intangeble assets will be amortized on a straight line basis over their useful lives. The amortization charge for each period is recognised as expense on the following bases:

Patent	2 to 5%
Trademark	10 to 34%
Customer and distributor relationship	10 to 32%
Other intangeble assets	12 to 20%

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

	2005	2004
Cost of goods sold	164	114
Sales and marketing expenses	2,706	339
Research and development expenses	1,500	291
General and administrative expenses	619	375
	4,989	1,119

17. 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
GBM Medical AB	Sweden	100%	No operation
Ossur Nordic, AS	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB	Sweden	100%	Healthcare consulting
Ossur Holdings, Inc	USA	100%	Holding
Ossur Engineering, Inc	USA	100%	Manufacturer
Ossur North America, Inc	USA	100%	Sales, distribution and services
Generation II USA, Inc	USA	100%	Manufacturer
Royce Medical Holdings, Inc	USA	100%	Holding
Royce Medical Company	USA	100%	Manufacturer, sales, distribution and services
Philad. Cervical Collar Co	USA	100%	Manufacturer, sales, distribution and services
The Jerome Group Inc	USA	100%	Manufacturer, sales, distribution and services
GHT, Inc	USA	100%	No operation
Vistek, Inc	USA	100%	No operation
Generation II Orthotics, Inc.,	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA	Belgium	100%	No operation
GII Orthotics Europe, NV	Belgium	100%	No operation
Ossur Europe, BV	Netherlands	100%	Sales, distribution and services
Ossur UK, Holdings, Ltd	UK	100%	Holding
IMP Holdings, Ltd	UK	100%	Holding
Medistox, Ltd	UK	100%	Sales, distribution and services
TIM Holdings, Ltd	UK	100%	Holding
TIM Ltd	UK	100%	Distribution and services
IMP Ltd	UK	100%	R&D and manufacturer
Ortex Ltd	UK	100%	Manufacturer
Ossur Asia Pacific PTY Ltd	Australia	100%	Sales, distribution and services

All amounts in thousands of USD

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

In May 2005 Ossur hf. formed a new subsidary in Australia by the name Ossur Asia Pacific PTY Ltd. The subsidary is fully owned by Ossur hf. Operations of the subsidary started on July 1st and it handles sales and distribution of Ossur's products in Asia.

On 10 August 2005 Ossurs' subsidiary Ossur North America, Inc. aquired 100 per cent of the issued share capital of the Royce Medical Group in USA including Royce Medical Holdings, Inc., Royce Medical Company, Philadelphia Cervical Collar Co. and The Jerome Group, Inc. The aquired companies produce braces and various orthopaedic support products.

On 1 December 2005 Ossurs' subsidiary Ossur Europe BV acquired 100 per cent of the issued share capital of the Innovative Medical Products Group in the UK including Innovative Medical Products Holding Ltd., Innovative Medical Products Ltd., Medistox Ltd., Ortex Ltd., Technology in Motion Holdings Ltd. and Technology in Motion Ltd. The companies design, manufacture and distribute Orthopaedic products and provide orthopaedic service in the UK.

On 9 December 2005 Ossurs subsidiary Ossur Nordic AB acquired 100 per cent of the issued share capital of GBM Medical AB in Sweden. The company is a distribution company for Orthopaedic products in Scandinavia.

18. Loans and receivables

	Loans and receivables
Balance at 1 January 2004	448
Additions during the year	362
Installments during the year	(101)
Exchange differences	115
At 1 January 2005	824
Additions during the year	174
Installments during the year	(184)
Exchange differences	(34)
At 31 December 2005	780

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.

19. Available for sale investments

	Available for sale
At 1 January 2004	476
Disposed of during the year	(117)
Fair value and exchange rate adjustments	52
At 1 January 2005	411
Acquired on acquisition of subsidiary	306
Disposed of during the year	(145)
Fair value and exchange rate adjustments	21
At 31 December 2005	593

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

20. Inventories

	31.12.2005	31.12.2004
Raw material	10,063	6,489
Work in progress	1,892	624
Finished goods	13,574	7,992
	25,529	15,105

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,338 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,108 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

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

The Consolidation recognises obsolete and defective inventory among cost of good sold in the Income statement. An allowance amounting to USD 678 thousand (2004: USD 351 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.

21. Other financial assets

Accounts receivable:

	31.12.2005	31.12.2004
Nominal value	29,978	17,318
Allowances for doubtful accounts	(963)	(720)
Allowances for sales return	(701)	(572)
	28,314	16,026

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:

	31.12.2005	31.12.2004
VAT refundable	2,556	1,607
Prepaid expenses	4,031	2,932
Receivable from previous Generation II shareholders	0	275
Other	769	729
	7,356	5,543

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 26

22. Share capital

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

	Shares	Ratio	Nominal value
Total share capital at period-end	383.9	99.7%	4,160
Treasury stock at period-end	1.0	0.3%	10
	384.9	100.0%	4,170

Shares issued and outstanding at year-end numbered a total of 384,940,447. The nominal value of each share is one Icelandic krona. In a share offering taking place September 23rd. to 29th. 2005, 66,499,447 shares were subscribed at 81 ISK pr. share. The share increase was paid and recorded in October. The total amount paid in, net of direct cost, amounted to USD 83,357 thousand.

Changes in share capital are as follows:	Share capital
Share capital as of 1 January 2004	3,083
Purchases of treasury stock	(62)
Exercised share options	16
Allocation of treasury stock to sellers of subsidiaries	5
Share capital as of 1 January 2005	3,042
Exercised share options	33
Paid in share capital	1,085
Balance at 31 December 2005	4,160

23. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2004	23,616	796	24,412
Purchases of treasury stock	(7,193)		(7,193)
Exercised share options	324		324
Allocation of treasury stock to sellers of subsidiaries	204		204
Balance at 1 January 2005	16,951	796	17,747
Exercised share options	3,896		3,896
Paid in share capital	82,272		82,272
Transferred from accumulated profits		247	247
Balance at 31 December 2005	103,119	1,043	104,162

24. Translation reserves

	Translation reserves
Balance at 1 January 2004	2,448
Exchange differences arising on translation of subsidiaries	2,318
Transferred to income due to sale of subsidiaries	(130)
Balance at 1 January 2005	4,636
Exchange differences arising on translation of subsidiaries	(865)
Balance at 31 December 2005	3,771

25. Accumulated profits

	Accumulated profits
Balance at 1 January 2004	14,068
Net profit for the year	15,227
Balance at 1 January 2005	29,295
Transferred to statutory reserves	(247)
Net profit for the period	11,688
Balance at 31 December 2005	40,736

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
46.0 / conditional / June 2001	0	1,000	1,000
58.5 / conditional / January 2001	240	0	240
73.7 / conditional / July 2000	100	0	100
	340	1,000	1,340

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 2005		1/1 - 31/12 2004	
	Number of shares (in Thousands)	Weighted average contract rate (in ISK)	Number of shares (in Thousands)	Weighted average contract rate (in ISK)
Outstanding at beginning of year	4,803	66.05	6,655	52.80
Forfeited during the year	0	0.00	(169)	58.50
Exercised during the year	(3,463)	72.15	(1,683)	14.45
Outstanding at the end of the period	1,340	50.31	4,803	66.05
Exercisable at the end of the period	340	62.97	319	58.50

At 31 December 2005, the total outstanding number of shares in Ossur hf. amounted to 384,940,447.

27. Loans from credit institutions

	Remaining balances 31.12.2005	Remaining balances 31.12.2004
Loans in USD	136,989	23,115
Loans in EUR	57,548	10,053
	194,537	33,168
Current maturities	(9,390)	(981)
Loans from credit institutions	185,147	32,187

Aggregated annual maturities are as follows:

In 2006 / 2005	9,390	981
In 2007 / 2006	14,256	981
In 2008 / 2007	14,295	981
In 2009 / 2008	19,282	28,754
In 2010 / 2009	19,344	981
Later	117,970	490
	194,537	33,168

The average interest rates were as follows:

	2005	2004
Bank loans	5.99%	4.78%

The terms of a USD 140 million and EUR 48.6 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. The Consolidation has pledged certain buildings, machinery, equipments and inventories to secure banking facilities granted.

Ossur uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of USD 140 million and of EUR 48.6 million have been made to swap floating interest rates to weighted average fixed interest rates of 5.99% including margin for periods up until 2012.

During the year a total of USD 108 thousand was expensed in the Income Statement due to the swap agreements.

28. Obligation under finance leases

	Minimum lease payments 31.12.2005	Minimum lease payments 31.12.2004	Remaining balances 31.12.2005	Remaining balances 31.12.2004
Finance leases in USD	37	174	37	168
Finance leases in EUR	190	403	184	385
	227	577	221	553
Current maturities	(193)	(331)	(189)	(313)
Obligation under finance leases	34	246	32	240

All amounts in thousands of USD

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
In 2006 / 2005	193	331	189	313
In 2007 / 2006	34	215	32	209
In 2008 / 2007	0	31	0	31
	227	577	221	553
Less: future finance charges	(6)	(24)		
Remaining balances	221	553		

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

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

29. Other long-term liabilities

	Remaining balances	
	31.12.2005	31.12.2004
Other liabilities in USD	639	1,457
Other liabilities in EUR	118	137
Other liabilities in SEK	944	0
Other liabilities in GBP	2,060	0
Other liabilities in AUD	58	0
	3,819	1,594
Current maturities	(1,469)	(1,262)
Other long-term liabilities	2,350	332

Aggregated annual maturities are as follows:

In 2006 / 2005	1,469	1,262
In 2007 / 2006	1,201	189
In 2008 / 2007	749	50
In 2009 / 2008	104	48
In 2010 / 2009	0	45
Later	296	0
	3,819	1,594

30. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2005	20,245	(2,863)	17,382
Arising on acquisition of a subsidiary	0	(22,988)	(22,988)
Calculated tax for the year	(633)	76	(557)
Income tax payable for the year	4,347	(1,989)	2,358
Exchange differences	(417)	(68)	(485)
At 31 December 2005	23,542	(27,832)	(4,290)

All amounts in thousands of USD

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

	31.12.2005
Intangible assets	(24,885)
Fixed tangible assets	(2,600)
Goodwill	11,975
Inventories	2,189
Long term loans	(547)
Accrued expenses	600
Restructuring cost	1,166
Reserves and credits	324
Other	1,413
Loss carry-forward	6,075
	(4,290)

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

	Tax loss	Deferred tax
Available for 10 years	5,250	945
Available for 15 years	4,532	1,805
Available indefinitely	9,521	3,325
	19,303	6,075

31. Long-term liabilities - due within one year

	31.12.2005	31.12.2004
Loans from credit institutions	9,390	981
Obligations under finance leases	189	313
Other long-term liabilities	1,469	1,262
	11,048	2,556

32. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2005	557	59	616
Acquired on acquisition of subsidiary	0	198	198
Additional provision in the year	1,108	4,765	5,873
Exchange differences	0	(7)	(7)
Utilization of provision	(269)	(932)	(1,201)
At 31 December 2005	1,396	4,083	5,479

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.

All amounts in thousands of USD

33. Acquisition of Royce Medical Group

On 10 August 2005 Ossurs' subsidiary Ossur North America, Inc. acquired 100 per cent of the issued share capital of the Royce Medical Group in USA including Royce Medical Holdings, Inc, Royce Medical Company, Philadelphia Cervical Collar Co. and The Jerome Group, Inc. for a cash consideration of USD 227.5 million. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 10.08.2005
Net assets acquired:	
Operating fixed assets	3,111
Intangible assets	42,424
Available for sale investments	306
Inventories	9,580
Other current assets	11,845
Bank balances and cash	4,192
Long-term liabilites	(376)
Deferred tax liability	(21,862)
Current liabilities	(9,781)
	39,439
Goodwill	188,070
Total consideration	227,509
Satisfied by cash	227,509
	227,509
Net cash outflow arising on acquisition:	
Cash consideration	227,509
Bank balances and cash acquired	(4,192)
	223,317

The figures above are based on a preliminary opening balance sheet prepared for purchase accounting purposes and are therefore subject to change during Q1 2006. Fair value of intangible assets were valued with the assistance of Strategic Equity Group, a valuation advisory service company. Intangible assets recognised in the acquisition include patents, trademarks, customer relationship, non-compete agreements and other assets. In accordance with IFRS inventories at acquisition date are valued at fair value. This results in a step-up of inventories in the opening balance in the amount of USD 3,277 thousand which was fully expensed during 2005 since all the inventories are considered to be sold on 31 December 2005.

According to the share purchase agreement the cash consideration included a working capital adjustment which was subject to change after the sellers review of the opening balance of the companies.

Royce Medical Group contributed USD 26,700 thousand of revenue and generated loss of USD 2,423 thousand for the period between the date of acquisition and the balance sheet date. This includes the expensing of the inventory step-up amount of USD 3,277 thousand through Cost of goods sold which has a negative effect net of tax amounting to USD 1,984 thousand in the consolidated income statement.

All amounts in thousands of USD

34. Acquisition of Advanced Prosthetic Components Pty Ltd.

On 1 July 2005 Ossurs' subsidiary Ossur Asia Pacific Pty Ltd. acquired the assets and operations of Advanced Prosthetic Components Pty Ltd. for USD 1,406 thousand. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 01.07.2005
Net assets acquired:	
Operating fixed assets	7
Current assets	113
Current liabilities	(46)
	74
Goodwill	1,332
Total consideration	1,406
Satisfied by cash	1,351
NPV of future payments	55
	1,406
Net cash outflow arising on acquisition:	
Cash consideration	1,351

According to the share purchase agreement Ossur Asia Pacific Pty Ltd. shall pay AUD 100,000 in the year 2008 if certain conditions are fulfilled. The amount has been discounted with the assumption of 10% interest.

Ossur Asia Pacific Pty Ltd. contributed USD 772 thousand of revenue and generated loss of USD 107 thousand for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD

35. Acquisition of Innovative Medical Products Group

On 1 December 2005 Ossurs' subsidiary Ossur Europe BV acquired 100 per cent of the issued share capital of the Innovative Medical Products Group in the UK including Innovative Medical Products Holding Ltd., Innovative Medical Products Ltd., Medistox Ltd., Ortex Ltd., Technology in Motion Holdings Ltd. and Technology in Motion Ltd. for a cash consideration of USD 19.9 million. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 01.12.2005
Net assets acquired:	
Operating fixed assets	136
Intangible assets	3,556
Inventories	1,264
Other current assets	2,349
Bank balances and cash	331
Deferred tax liability	(1,074)
Current liabilities	(2,327)
	4,235
Goodwill	15,627
Total consideration	19,862
Satisfied by cash	17,772
Payable later	2,090
	19,862
Net cash outflow arising on acquisition:	
Cash consideration	17,772
Bank balances and cash acquired	(331)
	17,441

The figures above are based on a preliminary opening balance sheet prepared for purchase accounting purposes and are therefore subject to change during Q1 2006. Intangible assets recognised in the acquisition include trademarks, intellectual property and other assets.

According to the share purchase agreement the cash consideration included a working capital adjustment which was subject to change after the sellers review of the opening balance of the companies.

Innovative Medical Products Group contributed USD 1,095 thousand of revenue and generated loss of USD 314 thousand for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD

36. Acquisition of GBM Medical AB

On 9 December 2005 Ossurs subsidiary Ossur Nordic AB acquired 100 per cent of the issued share capital of GBM Medical AB in Sweden for a cash consideration of USD 2 million. This transaction has been accounted for by the purchase method of accounting.

	Acquisition 09.12.2005
Net assets acquired:	
Operating fixed assets	13
Current assets	690
Deferred tax liability	(52)
Current liabilities	(393)
	258
Goodwill	1,752
Total consideration	2,010
Satisfied by cash	1,070
Payable later	940
	2,010
Net cash outflow arising on acquisition:	
Cash consideration	1,070
Bank balances and cash acquired	(210)
	860

According to the share purchase agreement Ossur Nordic AB shall pay SEK 7,500,000 within two years.

GBM Medical AB contributed USD 140 thousand of revenue and generated loss of USD one thousand for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD 35

37. Disposal of the Domestic Shoeshop

On 6 June 2005 Ossur hf. sold the domestic shoeshop owned by the company. The total cash consideration amounted to USD 854 thousand.

	Disposal 06.06.2005
Net assets at the date of disposal:	
Operating fixed assets	107
Inventories	340
	447
Total consideration	854
Net assets at the date of disposal	(447)
Gain on disposal	407
Satisfied by cash	854
Net cash inflow arising on disposal	
Cash consideration	854

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

38. Operating lease arrangements

	2005	2004
Minimum lease payments under operating leases recognised in the Income Statement for the year	4,505	3,358

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

	31.12.2005	31.12.2004
In 2006 / 2005	4,760	3,547
In 2007 / 2006	4,098	3,370
In 2008 / 2007	2,939	2,259
In 2009 / 2008	2,203	1,454
In 2010 / 2009	1,826	1,120
Later	6,644	1,690
	22,470	13,440

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

All amounts in thousands of USD

39. 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	71,018	47,659

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 43,181 thousand USD.

40. Events after the Balance Sheet date

On 18 January Ossur hf. acquired Innovation Sports, Inc., a US-based developer and manufacturer of ligament braces, for USD 38.4 million. Effective immediately, Ossur will begin executing the planned integration. Innovation Sports main markets are the US, Canada and central Europe; the US accounts for approximately 50% of sales, Europe 40% and Canada 10%. The company specializes in the innovative design and manufacturing of knee braces for the treatment of ligament injuries and rehabilitative uses, as well as protective braces for athletes. It also has product lines that address pain management and wrist braces, which are new to the Ossur product portfolio.

In connection with the acquisition, additional funding of USD 40 million has been provided by Kaupthing bank hf. Repayment will be in 2011 and 2012 and interest is LIBOR +1.75%.

41. Approval of the Financial Statements

The Consolidated Financial statements were approved by the Board of Directors and authorised for issue on 7 February 2006.

All amounts in thousands of USD