

# Ossur hf.

---

Consolidated Financial Statements

---

September 30<sup>th</sup> 2006

---

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

---

# Ossur hf.

---

Consolidated Financial Statements

---

September 30<sup>th</sup> 2006

## Table of Contents

Statement by the Board of Directors and President and CEO	2
Financial Ratios	3
Auditors' Report	4
Consolidated Income Statements	5
Consolidated Balance Sheets	6
Consolidated Statements of Cash Flow	8
Consolidated Statement of changes in Equity	9
Notes to the Financial Statements	10

---

# Statement by the Board of Directors and President and CEO

---

It is the opinion of the Board of Directors and the President and CEO of Ossur hf., that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 September 2006, the operating results for the period 1 January to 30 September 2006, and financial developments during that period. Ossur Interim Financial Statements are prepared in accordance with IFRS.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 September 2006 with their signatures.

Reykjavik, 30 October 2006

## Board of Directors

Niels Jacobsen  
Chairman of the Board

Ossur Kristinsson

Kristjan T. Ragnarsson

Thordur Magnusson

Sigurbjorn Thorkelsson

## President and CEO

Jon Sigurdsson

# Financial Ratios

## Consolidated statement

		30.9.2006	30.9.2005	2005	2004	2003	2002
<b>Growth</b>							
Net sales	USD '000	188,289	111,139	160,729	124,399	94,467	81,284
EBITDA	USD '000	33,877	17,901	25,832	25,045	9,428	14,310
Profit from operations	USD '000	19,300	12,587	16,525	20,374	6,112	11,501
Net income	USD '000	8,067	8,600	11,688	15,227	4,661	10,056
Total assets	USD '000	453,597	396,454	407,986	108,915	102,126	71,425
<b>Operational performance</b>							
Cash provided by operating activities	USD '000	7,000	12,845	15,481	16,600	10,383	10,503
- as ratio to total debt <sup>(1)</sup>	%	3	10	10	30	23	36
- as ratio to net profit		0.9	1.5	1.3	1.1	2.2	1.0
Working capital from operating activities	USD '000	22,704	13,519	18,954	23,095	8,774	14,661
- as ratio to long-term debt and stockh. equity <sup>(1)</sup>	%	8	10	8	27	13	30
<b>Liquidity and solvency</b>							
Quick ratio		1.0	0.7	1.4	1.4	1.2	1.5
Current ratio		1.5	0.9	2.1	2.2	1.8	2.3
Equity ratio	%	36	17	37	50	43	56
<b>Asset utilization and efficiency</b>							
Total asset turnover <sup>(1)</sup>		0.6	0.6	0.6	1.2	1.1	1.3
Grace period granted <sup>(1)</sup>	Days	43	44	44	44	47	44
<b>Profitability</b>							
Return on capital <sup>(1)</sup>	%	7	12	10	20	9	20
Return on common equity <sup>(1)</sup>	%	8	20	15	31	11	29
Operating profit as ratio to net sales	%	10	11	10	16	6	14
Net income before taxes as ratio to net sales	%	2	9	8	15	6	15
Net income for the period as ratio to net sales	%	4	8	7	12	5	12
<b>Market</b>							
Value of stock	USD '000	692,102	441,276	695,125	395,514	201,237	219,584
Price/earnings ratio, (P/E) <sup>(1)</sup>		62.0	36.7	59.5	26.0	43.2	21.8
Price/book ratio		4.2	6.7	4.5	7.2	4.6	5.5
Number of shares	Millions	385	318	385	318	328	328
Earnings per Share, (EPS) <sup>(1)</sup>	US Cent	3.02	3.82	3.53	4.80	1.45	3.12
Diluted Earnings per Share, (Diluted EPS) <sup>(1)</sup>	US Cent	3.02	3.81	3.52	4.80	1.44	3.10
Cash EPS <sup>(1)</sup>	US Cent	8.04	5.90	6.34	6.28	2.48	3.99
Diluted Cash EPS <sup>(1)</sup>	US Cent	8.04	5.89	6.33	6.27	2.47	3.97

## Notes

1. Financial ratios for YTD 2005 and YTD 2006 are based on operations for the preceding 12 months.

# Auditors' Report

---

To the Board of Directors and Shareholders of Ossur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Ossur hf. and subsidiaries as of 30 September 2006, 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 Consolidated 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. The Financial Statements of the foreign subsidiaries of Ossur hf. were reviewed by Deloitte member firms.

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

Based on our review nothing has come to our attention that causes us to believe that the accompanying Financial Statements do not give a true and fair view of the financial position of Ossur hf. and its subsidiaries as of 30 September 2006, of the results of their operations and their cash flows for the period then ended in accordance with International Financial Reporting Standards.

Reykjavik, 30 October 2006

**Deloitte hf.**

Sigurður Pall Hauksson  
State authorized public accountant

Thorvardur Gunnarsson  
State authorized public accountant

# Consolidated Income Statements

## for the periods 1.1.-30.9.2006 and 1.1.-30.9.2005

	Notes	YTD 2006	YTD 2005	Q3 2006	Q3 2005
<b>Net sales</b>	4	188,289	111,139	62,755	44,567
Cost of goods sold .....		<u>(75,811)</u>	<u>(45,971)</u>	<u>(24,946)</u>	<u>(19,607)</u>
<b>Gross profit</b>		112,478	65,168	37,809	24,960
Other income .....		244	1,593	121	1,007
Sales and marketing expenses .....		(50,862)	(24,582)	(17,530)	(10,587)
Research and development expenses .....		(13,181)	(8,351)	(4,254)	(3,149)
General and administrative expenses .....		(26,380)	(17,126)	(9,085)	(6,430)
Restructuring expenses .....	7	<u>(3,000)</u>	<u>(4,115)</u>	<u>0</u>	<u>(4,115)</u>
<b>Profit from operations</b>		19,299	12,587	7,061	1,686
Financial income/(expenses) .....	8	<u>(14,795)</u>	<u>(2,543)</u>	<u>(3,887)</u>	<u>(1,861)</u>
<b>Profit (loss) before tax</b>		4,504	10,044	3,174	(175)
Income tax .....	9	<u>3,563</u>	<u>(1,444)</u>	<u>2,203</u>	<u>987</u>
<b>Net profit for the period</b>		<u><u>8,067</u></u>	<u><u>8,600</u></u>	<u><u>5,377</u></u>	<u><u>812</u></u>
<b>Earnings per Share</b>	10				
Basic Earnings per Share .....		<u>2.10</u>	<u>2.73</u>	<u>1.40</u>	<u>0.26</u>
Diluted Earnings per Share .....		<u>2.10</u>	<u>2.73</u>	<u>1.40</u>	<u>0.26</u>
Cash Earnings per Share .....		<u>5.89</u>	<u>4.42</u>	<u>2.72</u>	<u>1.18</u>
Diluted Cash Earnings per Share .....		<u>5.89</u>	<u>4.41</u>	<u>2.72</u>	<u>1.18</u>

# Consolidated Balance Sheets

---

## Assets

	Notes	30.9.2006	31.12.2005
<b>Fixed assets</b>			
Property, plant and equipment .....	11	24,815	22,130
Goodwill .....	12	261,299	232,134
Other intangible assets .....	13	46,142	46,694
Loans and receivables .....	15	1,046	780
Available for sale investments .....	16	603	593
Deferred tax asset .....	27	28,149	23,542
		<u>362,054</u>	<u>325,873</u>
<b>Current assets</b>			
Inventories .....	17	33,325	25,529
Accounts receivable .....	18	37,140	28,314
Other receivables .....	18	13,409	7,356
Bank balances and cash .....	18	7,669	20,914
		<u>91,543</u>	<u>82,113</u>
<b>Total assets</b>		<u><u>453,597</u></u>	<u><u>407,986</u></u>

## 30 September 2006 and 31 December 2005

### Equity and liabilities

	Notes	30.9.2006	31.12.2005
<b>Stockholders' equity</b>			
Share capital .....	19	4,170	4,160
Capital reserves .....	20	104,486	104,162
Translation reserves .....	21	7,346	3,771
Accumulated profits .....	22	48,803	40,736
		<u>164,805</u>	<u>152,829</u>
<b>Long-term liabilities</b>			
Loans from credit institutions .....	24	197,878	185,147
Obligation under finance leases .....	25	99	32
Other long-term liabilities .....	26	1,639	2,350
Deferred tax liabilities .....	27	28,375	27,832
		<u>227,991</u>	<u>215,361</u>
<b>Current liabilities</b>			
Long-term liabilities - due within one year .....	28	17,348	11,048
Accounts payable .....		9,305	8,844
Bank loans .....		12,825	0
Tax liabilities .....		0	917
Other current liabilities .....		15,278	13,508
Provisions .....	29	6,045	5,479
		<u>60,801</u>	<u>39,796</u>
<b>Total equity and liabilities</b>		<u><u>453,597</u></u>	<u><u>407,986</u></u>



# Consolidated Statements of Cash Flows

## for the periods 1.1.-30.9.2006 and 1.1.-30.9.2005

	Notes	YTD 2006	YTD 2005
<b>Cash flows from operating activities</b>			
Profit from operations .....		19,299	12,587
Depreciation and amortization .....	11, 13	14,577	5,314
Gain on disposal of assets .....		(5)	(410)
Other calculated items .....		0	(1,000)
Changes in current assets and liabilities .....		(11,167)	90
<b>Cash generated by operations</b>		<u>22,704</u>	<u>16,581</u>
Interest received .....		85	200
Interest paid .....		(11,171)	(2,027)
Taxes paid .....		(4,618)	(1,909)
<b>Net cash provided by operating activities</b>		<u>7,000</u>	<u>12,845</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets .....	11, 13	(6,862)	(5,194)
Proceeds from sale of fixed assets .....		144	59
Acquisition of subsidiaries .....	30, 31	(39,638)	(218,271)
Sale of subsidiaries .....		0	549
Additions in loans and receivables .....	15	(358)	(20)
Installments of loans and receivables .....	15	432	179
Proceeds from sale of available for sale investments .....	16	11	8
		<u>(46,271)</u>	<u>(222,690)</u>
<b>Cash flows from financing activities</b>			
Short-term loans .....		12,825	80,000
Borrowing of long-term liabilities .....		19,263	204,152
Repayments of long-term liabilities .....		(6,525)	(40,261)
Purchases of treasury stock .....		(546)	0
Exercised share options .....	19, 20	880	3,385
		<u>25,897</u>	<u>247,276</u>
<b>Net change in cash and cash equivalents</b>		(13,374)	37,431
<b>Effects of foreign exchange adjustments</b>		129	(117)
<b>Cash and cash equivalents at beginning of year</b>		<u>20,914</u>	<u>4,297</u>
<b>Cash and cash equivalents at end of period</b>		<u>7,669</u>	<u>41,611</u>
<b>Other information:</b>			
<b>Net cash provided by operating activities:</b>			
Net profit for the period .....		8,067	8,600
Items not affecting cash .....		14,724	4,919
<b>Working capital provided by operating activities</b>		<u>22,791</u>	<u>13,519</u>
Changes in current assets and liabilities .....		(15,791)	(674)
<b>Net cash provided by operating activities</b>		<u>7,000</u>	<u>12,845</u>

## Consolidated Statement of changes in Equity for the period ended 30 September 2006

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
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
Translation difference of shares in foreign companies.....			3,575		3,575
Net gains / losses not recognised in the income statement.....	0	0	3,575	0	3,575
Purchases of treasury stock.....	(3)	(543)			(546)
Exercised share options.....	13	867			880
Net profit for the period.....				8,067	8,067
Balance at 30 September 2006.....	4,170	104,486	7,346	48,803	164,805

# Notes to the Financial Statements

---

## 1. Operations

Ossur hf. is a global orthopaedics company specializing in products and services in the areas of prosthetic and bracing 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, 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, UK, Australia and China in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in nine places during the period: at Ossur Americas, Inc. in Aliso Viejo, Foothill Ranch and in Camarillo in California, Thorofare and Moorestown in New Jersey, and in Albion, Michigan, at Ossur Canada, in Canada, Ossur UK in Manchester, 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 six divisions, i.e. Corporate Finance, responsible for overall financial management and overall marketing; Manufacturing & Operations, responsible for all production and inventory management; R&D, responsible for Quality Control, Product Development and New Product Management; Ossur Americas, responsible for sales in USA, Canada and Latin America; Ossur Europe, responsible for sales in Europe incl. Scandinavia and Ossur Asia responsible for Australia, Japan, China and other asian countries.

Localized marketing, sales distribution and services is handled by Ossur Americas, Ossur UK, Ossur Europe and Ossur Asia Pacific.

## 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.

# Notes to the 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 63% 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.

# Notes to the Financial Statements

---

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. Debt issuance costs related to the financing of acquired companies are capitalized and amortized over the term of the financing agreement.

## **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.

# Notes to the Financial Statements

---

## 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 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 receivable 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.

# Notes to the Financial Statements

## 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.

## 3. Quarterly statements

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Net sales .....	62,755	65,500	60,034	49,590	44,567
Cost of goods sold .....	(24,946)	(26,787)	(24,078)	(20,367)	(19,607)
<b>Gross profit .....</b>	<b>37,809</b>	<b>38,713</b>	<b>35,956</b>	<b>29,223</b>	<b>24,960</b>
Other income .....	121	69	54	277	1,007
Sales and marketing exp. ....	(17,530)	(17,323)	(16,009)	(13,521)	(10,587)
Research and develop. exp. ....	(4,254)	(4,228)	(4,699)	(4,057)	(3,149)
General and admin. exp. ....	(9,085)	(8,753)	(8,542)	(7,680)	(6,430)
Restructuring expenses .....	0	0	(3,000)	(304)	(4,115)
<b>Profit from operations .....</b>	<b>7,061</b>	<b>8,478</b>	<b>3,760</b>	<b>3,938</b>	<b>1,686</b>
Financial income/(expenses) .....	(3,887)	(5,987)	(4,921)	(1,737)	(1,861)
<b>Profit (loss) before tax .....</b>	<b>3,174</b>	<b>2,491</b>	<b>(1,161)</b>	<b>2,201</b>	<b>(175)</b>
Income tax .....	2,203	(372)	1,732	887	987
<b>Net profit for the period .....</b>	<b>5,377</b>	<b>2,119</b>	<b>571</b>	<b>3,088</b>	<b>812</b>
EBITDA .....	12,138	13,144	8,594	7,931	4,610

# Notes to the Financial Statements

## 4. Net sales

Net sales are specified as follows according to markets:

	<u>YTD 2006</u>	<u>YTD 2005</u>
North America .....	116,220	61,102
Europe, other.....	44,643	27,219
Nordic.....	14,885	13,961
International markets.....	12,541	8,857
	<u>188,289</u>	<u>111,139</u>

## 5. Geographical segments

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

<b>2006</b>	North America	Europe, other	Nordic	International	Eliminations	Consolidated
	<u>YTD 2006</u>	<u>YTD 2006</u>	<u>YTD 2006</u>	<u>markets</u>	<u>YTD 2006</u>	<u>YTD 2006</u>
<b>Revenue</b>						
External sales.....	116,220	44,643	14,885	12,541	0	188,289
Inter-segment sales.....	11,946	1,976	49,048	0	(62,970)	0
Total revenue.....	<u>128,166</u>	<u>46,619</u>	<u>63,933</u>	<u>12,541</u>	<u>(62,970)</u>	<u>188,289</u>

Inter-segment sales are calculated from external sales prices.

### Result

Segment result.....	<u>(1,658)</u>	<u>3,080</u>	<u>18,110</u>	<u>1,923</u>	<u>(2,156)</u>	19,299
Financial income/(expenses).....						<u>(14,795)</u>
Profit before tax.....						4,504
Income tax.....						<u>3,563</u>
Net profit.....						<u>8,067</u>

### Other information

Capital additions.....	3,024	555	3,263	20	0	6,862
Depreciation and amortization.....	11,540	1,218	1,815	4	0	14,577

### Balance sheet

	<u>30.9.2006</u>	<u>30.9.2006</u>	<u>30.9.2006</u>	<u>30.9.2006</u>	<u>30.9.2006</u>	<u>30.9.2006</u>
<b>Assets</b>						
Segment assets.....	413,796	67,120	417,015	3,409	(447,743)	<u>453,597</u>
<b>Liabilities</b>						
Segment liabilities.....	314,279	51,178	251,452	2,783	(330,900)	<u>288,792</u>



# Notes to the Financial Statements

2005	North America YTD 2005	Europe, other YTD 2005	Nordic YTD 2005	International markets YTD 2005	Eliminations YTD 2005	Consolidated YTD 2005
<b>Revenue</b>						
External sales.....	61,102	27,219	13,961	8,857	0	111,139
Inter-segment sales.....	12,151	295	35,201	0	(47,647)	0
Total revenue.....	<u>73,253</u>	<u>27,514</u>	<u>49,162</u>	<u>8,857</u>	<u>(47,647)</u>	<u>111,139</u>
<b>Net profit</b>						
Segment result.....	<u>4,627</u>	<u>970</u>	<u>6,243</u>	<u>(522)</u>	<u>1,269</u>	12,587
Financial income/(expenses).....						<u>(2,543)</u>
Profit before tax.....						10,044
Income tax.....						<u>(1,444)</u>
Net profit.....						<u>8,600</u>
<b>Other information</b>						
Capital additions.....	2,518	191	2,476	9	0	5,194
Depreciation and amortization.....	3,519	430	1,365	0	0	5,314
<b>Balance sheet</b>						
	<u>31.12.2005</u>	<u>31.12.2005</u>	<u>31.12.2005</u>	<u>31.12.2005</u>	<u>31.12.2005</u>	<u>31.12.2005</u>
<b>Assets</b>						
Segment assets.....	452,510	51,830	383,036	2,931	(482,321)	<u>407,986</u>
<b>Liabilities</b>						
Segment liabilities.....	308,048	39,035	229,184	1,857	(322,967)	<u>255,157</u>

## 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:

	<u>YTD 2006</u>	<u>YTD 2005</u>
Prosthetics.....	87,109	79,112
Orthotics.....	100,286	31,282
Other products.....	894	745
	<u>188,289</u>	<u>111,139</u>

## 7. Restructuring costs

In connection with the acquisition of the US based Innovation Sports, Inc. 3 million USD one time restructuring and integration costs have been expensed in the income statement. The costs cover areas such as restructuring of manufacturing, restructuring and consolidation of finance and back office functions and severance payments.

# Notes to the Financial Statements

## 8. Financial income / (expenses)

	YTD 2006	YTD 2005
<b>Income from investments:</b>		
Interest on bank deposits.....	42	185
Profit from loans and receivables.....	19	11
Profit from available for sale investments.....	0	61
Other interest income.....	43	14
	<u>104</u>	<u>271</u>
<b>Finance costs:</b>		
Interest on bank loans.....	(10,983)	(3,042)
Interest on obligations under finance leases.....	(11)	(15)
Other interest expenses.....	(163)	(109)
	<u>(11,157)</u>	<u>(3,166)</u>
Exchange rate differences.....	(3,742)	352
	<u>(14,795)</u>	<u>(2,543)</u>

## 9. Income tax expense

Income tax expenses are specified as follows:

	YTD 2006	YTD 2005
Current tax expenses.....	(377)	(1,341)
Deferred tax expenses.....	4,065	(532)
Exchange rate difference.....	(125)	429
	<u>3,563</u>	<u>(1,444)</u>

Reconciliation of effective tax rate:

	YTD 2006		YTD 2005	
	Amount	%	Amount	%
Profit before tax.....	<u>4,504</u>		<u>10,044</u>	
Tax at the domestic income tax (18%).....	(811)	(18%)	(1,808)	(18%)
Effect of different tax rates of other jurisdictions.....	4,068	90%	53	1%
Tax effect of expenses that are not deductible.....	(73)	(2%)	151	2%
Effect of change in tax rate.....	(56)	(1%)	33	0%
Other changes.....	435	10%	127	1%
	<u>3,563</u>	<u>79%</u>	<u>(1,444)</u>	<u>(14%)</u>

# Notes to the Financial Statements

## 10. Earnings per share

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

	YTD 2006	YTD 2005
Net profit for the period.....	8,067	8,600
Total average number of shares outstanding during the period (in thousands).....	384,262	314,738
Total average number of shares including potential shares (in thousands).....	384,296	315,317
Basic Earnings per Share (US cent) .....	2.10	2.73
Diluted Earnings per Share (US cent) .....	2.10	2.73
Cash Earnings per Share .....	5.89	4.42
Diluted Cash Earnings per Share .....	5.89	4.41
	Q3 2006	Q3 2005
Net profit for Q3.....	5,377	812
Total average number of shares outstanding during Q3 (in thousands).....	384,923	315,976
Total average number of shares including potential shares (in thousands).....	384,959	316,582
Basic Earnings per Share (US cent) .....	1.40	0.26
Diluted Earnings per Share (US cent) .....	1.40	0.26
Cash Earnings per Share .....	2.72	1.18
Diluted Cash Earnings per Share .....	2.72	1.18

## 11. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
<b>Cost</b>				
At 1 January 2006.....	3,161	21,625	13,882	38,668
Additions.....	0	1,037	5,361	6,398
Acquired on acquisition of subsidiary.....	0	609	291	900
Exchange differences.....	0	395	265	660
Eliminated on disposal.....	0	(100)	(360)	(460)
Fully depreciated assets.....	0	(838)	(804)	(1,642)
At 30 September 2006.....	3,161	22,728	18,635	44,524
<b>Accumulated depreciation</b>				
At 1 January 2006.....	610	9,769	6,159	16,538
Charge for the year.....	71	2,246	2,350	4,667
Exchange differences.....	0	275	192	467
Eliminated on disposal.....	0	(45)	(276)	(321)
Fully depreciated assets.....	0	(838)	(804)	(1,642)
At 30 September 2006.....	681	11,407	7,621	19,709
<b>Carrying Amount</b>				
At 30 September 2006.....	2,480	11,321	11,014	24,815
At 31 December 2005.....	2,551	11,856	7,723	22,130

# Notes to the Financial Statements

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

	<u>YTD 2006</u>	<u>YTD 2005</u>
Cost of goods sold .....	2,284	1,603
Sales and marketing expenses .....	228	144
Research and development expenses.....	191	136
General and administrative expenses .....	1,964	1,119
	<u>4,667</u>	<u>3,002</u>

## 12. Goodwill

	<u>30.9.2006</u>
<b>Cost</b>	
At 1 January 2006.....	232,134
Arising on acquisition of subsidiaries.....	27,032
Exchange differences.....	2,133
At 30 September 2006.....	<u>261,299</u>
<b>Carrying amount</b>	
At 30 September 2006.....	<u>261,299</u>
At 31 December 2005.....	<u>232,134</u>

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.

## Notes to the Financial Statements

### 13. Other intangible assets

	Patent	Trademark	Other	Total
<b>Cost</b>				
At 1 January 2006.....	13,052	10,518	30,452	54,022
Additions.....	132	36	296	464
Arising on acquisition of a subsidiary.....	1,400	1,700	5,401	8,501
Exchange differences.....	147	213	156	516
At 30 September 2006.....	14,731	12,467	36,305	63,503
<b>Amortization</b>				
At 1 January 2006.....	2,460	552	4,316	7,328
Charge for the period.....	1,733	2,115	6,062	9,910
Exchange differences.....	52	15	56	123
At 30 September 2006.....	4,245	2,682	10,434	17,361
<b>Carrying Amount</b>				
At 30 September 2006.....	10,486	9,785	25,871	46,142
At 31 December 2005.....	10,592	9,966	26,136	46,694

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

	YTD 2006	YTD 2005
Cost of goods sold.....	185	182
Sales and marketing expenses.....	5,367	1,123
Research and development expenses.....	3,277	611
General and administrative expenses.....	1,081	396
	9,910	2,312

# Notes to the Financial Statements

## 14. The Consolidation

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

Name of subsidiary	Place of registration and operation	Ownership	Principal activity
Ossur Holding, AB.....	Sweden	100%	Holding
Ossur Nordic, AB.....	Sweden	100%	Sales, distribution and services
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
Rigid Med. Techn., Inc.....	USA	100%	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
Empower Business Solutions, Inc.	USA	100%	Healthcare consulting
Innovation Sports, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Ortho Vantage, Inc.....	USA	100%	Services
Generation II Orthotics, Inc.,.....	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA.....	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
Ossur Uk, Ltd.....	UK	100%	Sales, distribution and services
TIM Holdings, Ltd.....	UK	100%	Holding
TIM Ltd.....	UK	100%	Distribution and services
IMP Ltd.....	UK	100%	R&D and manufacturer
Ortex Ltd.....	UK	100%	Manufacturer
Medistox, Ltd.....	UK	100%	Sales, distribution and services
Ossur Asia Pacific PTY Ltd.....	Australia	100%	Sales, distribution and services
Ossur Prosth. & Rehabil. Co.,Ltd..	China	100%	Manufacturer, sales, distribution and services

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

On 18 January 2006, Ossur's subsidiary Ossur Holdings, Inc. acquired 100 per cent of the issued share capital of the US based Innovation Sports, Inc., a company specialising in development and manufacturing of ligament braces.

On 1 February 2006, Ossur's subsidiary Royce Medical Holdings, Inc. acquired 100 per cent of the issued share capital of the US based Rigid Medical Technology, Inc., a company specialising in providing stock-and-bill reimbursement services.

In third quarter the Group founded a new company in China, Ossur Prosthetics and Rehabilitation Co., Ltd. The company is specialising in manufacturing, sales, distribution and services.

# Notes to the Financial Statements

## 15. Loans and receivables

	Loans and receivables
Balance at 1 January 2005.....	824
Additions during the period.....	174
Installments during the period.....	(184)
Exchange differences.....	(34)
At 1 January 2006.....	780
Additions during the period.....	358
Acquired on acquisition of subsidiary.....	334
Installments during the period.....	(432)
Exchange differences.....	6
At 30 September 2006.....	1,046

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.

## 16. Available for sale investments

	Available for sale
At 1 January 2005 .....	411
Acquired on acquisition of subsidiary.....	306
Disposed of during the period.....	(145)
Fair value and exchange rate adjustments.....	21
At 1 January 2006.....	593
Purchased during the year.....	0
Disposed of during the period.....	(11)
Fair value and exchange rate adjustments.....	21
At 30 September 2006.....	603

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.

## 17. Inventories

	30.9.2006	31.12.2005
Raw material.....	14,056	10,063
Work in progress.....	2,173	1,892
Finished goods .....	17,096	13,574
	33,325	25,529

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 11,494 USD thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,402 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.

# Notes to the Financial Statements

## 18. Other financial assets

### Accounts receivable:

	30.9.2006	31.12.2005
Nominal value.....	38,852	29,978
Allowances for doubtful accounts.....	(996)	(963)
Allowances for sales return.....	(716)	(701)
	<u>37,140</u>	<u>28,314</u>

The average credit period taken on sale of goods is 43 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:

	30.9.2006	31.12.2005
VAT refundable.....	1,306	2,556
Prepaid expenses.....	6,019	4,031
Other.....	6,084	769
	<u>13,409</u>	<u>7,356</u>

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.

## 19. Share capital

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

	Shares	Ratio	Nominal value
Total share capital at period-end.....	384.7	99.9%	4,170
Treasury stock at period-end.....	0.2	0.1%	0
	<u>384.9</u>	<u>100.0%</u>	<u>4,170</u>

Shares issued and outstanding at period-end numbered a total of 384,940,447. 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 2005 .....	3,042
Exercised share options.....	33
Paid in share capital.....	1,085
Share capital as of 1 January 2006.....	<u>4,160</u>
Purchases of treasury stock .....	(3)
Exercised share options.....	13
Balance at 30 September 2006.....	<u>4,170</u>



# Notes to the Financial Statements

## 20. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2005.....	16,951	796	17,747
Exercised share options.....	3,896	0	3,896
Paid in share capital.....	82,272	0	82,272
Transferred from accumulated profits.....	0	247	247
Balance at 1 January 2006.....	103,119	1,043	104,162
Purchases of treasury stock.....	(543)	0	(543)
Exercised share options.....	867	0	867
Balance at 30 September 2006.....	103,443	1,043	104,486

## 21. Translation reserves

	Translation reserves
Balance at 1 January 2005.....	4,636
Exchange differences arising on translation of subsidiaries.....	(865)
Balance at 1 January 2006.....	3,771
Exchange differences arising on translation of subsidiaries.....	3,575
Balance at 30 September 2006.....	7,346

## 22. Accumulated profits

	Accumulated profits
Balance at 1 January 2005.....	29,295
Transferred to statutory reserves.....	(247)
Net profit for the period.....	11,688
Balance at 1 January 2006.....	40,736
Net profit for the period.....	8,067
Balance at 30 September 2006.....	48,803

## 23. Stock Option Contracts and Obligations to Increase Share Capital

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

Contract rate (ISK) / conditions / date granted	Number of shares (in thousands)	
	2006	Total
73.7 / conditional / July 2000 .....	100	100
	100	100

All options are forfeited if the employee leaves the company before the options vest.

# Notes to the Financial Statements

	1/1 - 30/9 2006		1/1 - 31/12 2005	
	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 .....	1,340	50.31	4,803	66.05
Exercised during the period.....	(1,240)	48.42	(3,463)	72.15
Outstanding at the end of the period.....	100	73.70	1,340	50.31
Exercisable at the end of the period.....	100	73.70	340	62.97

At 30 September 2006, the total outstanding number of shares in Ossur hf. amounted to 384,940,447.

## 24. Loans from credit institutions

	Remaining balances	
	30.9.2006	31.12.2005
Loans in USD .....	147,324	136,989
Loans in EUR .....	66,370	57,548
	213,694	194,537
Current maturities.....	(15,816)	(9,390)
Loans from credit institutions.....	197,878	185,147

Aggregated annual maturities are as follows:

In 1.10.2006 - 30.9.2007 / 2006.....	15,816	9,390
In 1.10.2007 - 30.9.2008 / 2007.....	14,468	14,256
In 1.10.2008 - 30.9.2009 / 2008.....	18,304	14,295
In 1.10.2009 - 30.9.2010 / 2009.....	19,630	19,282
In 1.10.2010 - 30.9.2011 / 2010.....	4,917	19,344
Later.....	140,559	117,970
	213,694	194,537

The average interest rates were as follows:

	YTD 2006	YTD 2005
Bank loans.....	5.99%	5.99%

In connection with the acquisition of Innovation Sports, Inc., the Company's USD 200 million Term loan agreement was increased by USD 40 million, maturing in 2011 and 2012. USD 20 million are undrawn and available. 70% of total term loan drawdowns have been made in USD and 30% in EUR.

Debt issuance cost has been capitalized and is amortized over the term of the loan.

The terms of the loan facility include various provisions that limit certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants. The Consolidation has pledged certain buildings, machinery, equipment and inventories to secure banking facilities granted.

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

During the period a total of USD 71 thousand was expensed in the Income Statement due to the swap agreements.

# Notes to the Financial Statements

## 25. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	30.9.2006	31.12.2005	30.9.2006	31.12.2005
Finance leases in USD .....	134	37	128	37
Finance leases in EUR .....	72	190	72	184
	206	227	200	221
Current maturities.....	(103)	(193)	(101)	(189)
Obligation under finance leases.....	103	34	99	32

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	30.9.2006	31.12.2005	30.9.2006	31.12.2005
In 1.10.2006 - 30.9.2007 / 2006.....	103	193	101	189
In 1.10.2007 - 30.9.2008 / 2007.....	26	34	25	32
In 1.10.2008 - 30.9.2009 / 2008.....	30	0	28	0
In 1.10.2009 - 30.9.2010 / 2009.....	31	0	30	0
In 1.10.2010 - 30.9.2011 / 2010.....	16	0	16	0
	206	227	200	221
Less: future finance charges.....	(6)	(6)		
Remaining balances.....	200	221		

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.

## 26. Other long-term liabilities

	Remaining balances	
	30.9.2006	31.12.2005
Other liabilities in USD .....	443	639
Other liabilities in EUR.....	0	118
Other liabilities in SEK.....	1,024	944
Other liabilities in GBP.....	1,526	2,060
Other liabilities in AUD.....	77	58
	3,070	3,819
Current maturities.....	(1,431)	(1,469)
Other long-term liabilities.....	1,639	2,350

Aggregated annual maturities are as follows:

In 1.10.2006 - 30.9.2007 / 2006.....	1,431	1,469
In 1.10.2007 - 30.9.2008 / 2007.....	1,285	1,201
In 1.10.2008 - 30.9.2009 / 2008.....	165	749
In 1.10.2009 - 30.9.2010 / 2009.....	0	104
Later.....	189	296
	3,070	3,819

## Notes to the Financial Statements

### 27. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2006.....	23,542	(27,832)	(4,290)
Calculated tax for the period.....	4,347	(784)	3,563
Income tax payable for the period.....	0	377	377
Exchange differences.....	260	(136)	124
At 30 September 2006.....	<u>28,149</u>	<u>(28,375)</u>	<u>(226)</u>

### 28. Long-term liabilities - due within one year

	30.9.2006	31.12.2005
Loans from credit institutions.....	15,816	9,390
Obligations under finance leases.....	101	189
Other long-term liabilities.....	1,431	1,469
	<u>17,348</u>	<u>11,048</u>

### 29. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2006.....	1,396	4,083	5,479
Additional provision in the period.....	1,375	3,000	4,375
Exchange differences.....	0	17	17
Utilization of provision.....	(194)	(3,632)	(3,826)
At 30 September 2006.....	<u>2,577</u>	<u>3,468</u>	<u>6,045</u>

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

## Notes to the Financial Statements

### 30. Acquisition of Innovation Sports Inc.

On 18 January 2006 Ossurs' subsidiary Ossur North America, Inc. acquired 100 per cent of the issued share capital of the Innovation Sports, Inc. for a cash consideration of USD 39.2 million. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 18/01/2006
Net assets acquired:	
Operating fixed assets.....	882
Intangible assets.....	8,500
Available for sale investments.....	334
Inventories.....	1,094
Other current assets.....	3,597
Bank balances and cash.....	203
Long-term liabilities.....	(400)
Current liabilities.....	(1,409)
	<u>12,801</u>
Goodwill.....	26,352
Total consideration.....	<u>39,153</u>
Satisfied by cash.....	39,153
	<u>39,153</u>
Net cash outflow arising on acquisition:	
Cash consideration.....	39,153
Bank balances and cash acquired.....	(203)
	<u>38,950</u>

Fair value of intangible assets were valued with the assistance of Strategic Equity Group, a valuation advisory service company. Intangible assets recognized in the acquisition include patents, trademarks, customer relationship and non-compete agreements.

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.

Innovation Sports contributed USD 13,238 thousand of revenue for the period between the date of acquisition and the balance sheet date.

# Notes to the Financial Statements

---

## 31. Acquisition of Rigid Medical Technologies, Inc.

On 1 February 2006 Ossur's subsidiary Royce Medical Holdings, Inc. acquired 100 per cent of the issued share capital of Rigid Medical Technologies, Inc. in USA for a cash consideration of USD 788 thousand. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 01/02/2006
Net assets acquired:	
Operating fixed assets.....	18
Intangible assets.....	1
Inventories.....	39
Current assets.....	123
Current liabilities.....	(73)
	<u>108</u>
Goodwill.....	680
Total consideration.....	<u>788</u>
Satisfied by cash.....	788
	<u>788</u>
Net cash outflow arising on acquisition:	
Cash consideration.....	788
Payable later.....	(100)
	<u>688</u>

Rigid Medical Technologies, Inc. contributed USD 504 thousand of revenue for the period between the date of acquisition and the balance sheet date.

## 32. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 30 October 2006.