

Ossur hf.

Consolidated Financial Statements

March 31st 2007

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

Ossur hf.

Consolidated Financial Statements

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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 31 March 2007, the operating results for the period 1 January to 31 March 2007, 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 31 March 2007 with their signatures.

Reykjavik, 30 April 2007

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

		YTD 2007	YTD 2006	2006	2005	2004	2003
Growth							
Net sales	USD '000	80,380	60,034	252,133	160,729	124,399	94,467
EBITDA	USD '000	10,240	8,594	39,493	25,832	25,045	9,428
Profit from operations	USD '000	4,058	3,760	19,743	16,525	20,374	6,112
Net income / (loss)	USD '000	(2,706)	571	4,360	11,688	15,227	4,661
Total assets	USD '000	630,091	435,227	612,752	407,986	108,915	102,126
Operational performance							
Cash provided by operating activities	USD '000	2,111	1,197	15,988	15,481	16,600	10,383
- as ratio to total debt ⁽¹⁾	%	4	9	5	10	30	23
- as ratio to net result		(0.8)	2.1	3.7	1.3	1.1	2.2
Working capital from operating activities	USD '000	5,504	5,026	24,663	18,954	23,095	8,774
- as ratio to long-term debt and stockh. equity ⁽¹⁾	%	8	8	6	8	27	13
Liquidity and solvency							
Quick ratio		0.4	0.9	0.4	1.4	1.4	1.2
Current ratio		0.6	1.5	0.6	2.1	2.2	1.8
Equity ratio	%	25	35	26	37	50	43
Asset utilization and efficiency							
Total asset turnover ⁽¹⁾		0.5	0.7	0.5	0.6	1.2	1.1
Grace period granted ⁽¹⁾	Days	46	42	46	44	44	47
Profitability							
Return on capital ⁽¹⁾	%	4	7	5	10	20	9
Return on common equity ⁽¹⁾	%	1	9	3	15	31	11
Operating profit as ratio to net sales	%	5	6	8	10	16	6
Net income before taxes as ratio to net sales	%	(5)	(2)	0	8	15	6
Net income for the period as ratio to net sales	%	(3)	1	2	7	12	5
Market							
Value of stock	USD '000	730,715	627,355	605,572	695,125	395,514	201,237
Price/earnings ratio (P/E) ⁽¹⁾		675.3	69.0	138.9	59.5	26.0	43.2
Price/book ratio		4.6	4.1	3.7	4.5	7.2	4.6
Number of shares	Millions	385	385	385	385	318	328
Earnings per Share (EPS) ⁽¹⁾	US Cent	0.28	2.61	1.13	3.53	4.80	1.45
Diluted Earnings per Share, (Diluted EPS) ⁽¹⁾	US Cent	0.28	2.60	1.13	3.52	4.80	1.44
Cash EPS ⁽¹⁾	US Cent	5.78	6.34	6.27	6.34	6.28	2.48
Diluted Cash EPS ⁽¹⁾	US Cent	5.78	6.33	6.27	6.33	6.27	2.47

Notes

¹ Financial ratios for YTD 2007 and YTD 2006 are based on operations for the preceding 12 months.

Report on Review of Financial Information

To the Board of Directors and shareholders of Ossur hf.

Introduction

We have reviewed the accompanying consolidated balance sheet of Ossur hf. as of 31 March 2007 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not give a true and fair view of the financial position of the entity as at March 31, 2007, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 30 April 2007

Deloitte hf.

Sigurður Pall Hauksson
State authorized public accountant

Thorvardur Gunnarsson
State authorized public accountant

Consolidated Income Statements

for the periods 1.1. - 31.3.2007 and 1.1. - 31.3.2006

	Notes	YTD 2007	YTD 2006
Net sales	4	80,380	60,034
Cost of goods sold		<u>(34,393)</u>	<u>(24,078)</u>
Gross profit		45,987	35,956
Other income		320	54
Sales and marketing expenses		(21,978)	(16,009)
Research and development expenses		(4,994)	(4,699)
General and administrative expenses		(15,277)	(8,542)
Restructuring expenses		<u>0</u>	<u>(3,000)</u>
Profit from operations		4,058	3,760
Financial income /(expenses)	7	<u>(7,852)</u>	<u>(4,921)</u>
Loss before tax		(3,794)	(1,161)
Income tax	8	<u>1,088</u>	<u>1,732</u>
Net (Loss) / Profit		<u><u>(2,706)</u></u>	<u><u>571</u></u>
Earnings per Share			
Basic Earnings per Share		<u>(0.70)</u>	<u>0.15</u>
Diluted Earnings per Share		<u>(0.70)</u>	<u>0.15</u>

Consolidated Balance Sheets

Assets

	Notes	31.3.2007	31.12.2006
Non-current assets			
Property, plant and equipment	9	36,546	37,074
Goodwill	10	328,018	316,593
Other intangible assets	11	66,600	69,959
Loans and receivables	13	1,219	1,526
Trade and other receivables	14	650	682
Deferred tax asset	24	62,840	63,485
		<u>495,873</u>	<u>489,319</u>
Current assets			
Inventories	15	50,603	47,376
Accounts receivables	16	55,772	49,147
Other receivables	16	13,953	14,732
Bank balances and cash	16	13,890	12,178
		<u>134,218</u>	<u>123,433</u>
Total assets		<u><u>630,091</u></u>	<u><u>612,752</u></u>

31 March 2007 and 31 December 2006

Equity and liabilities

	Notes	31.3.2007	31.12.2006
Stockholders' equity			
Share capital	17	4,170	4,170
Capital reserves	18	104,426	104,426
Translation reserves	19	9,162	7,947
Accumulated profits	20	42,390	45,096
		<u>160,148</u>	<u>161,639</u>
Long-term liabilities			
Loans from credit institutions	22	206,043	198,615
Other long-term liabilities	23	2,466	2,719
Deferred tax liabilities	24	30,960	33,204
		<u>239,469</u>	<u>234,538</u>
Current liabilities			
Long-term liabilities - due within one year	25	15,425	15,331
Accounts payable		20,047	22,132
Bank loans	26	162,504	148,484
Tax liabilities		2,563	2,301
Other current liabilities		20,083	17,375
Provisions	27	9,852	10,952
		<u>230,474</u>	<u>216,575</u>
Total equity and liabilities		<u><u>630,091</u></u>	<u><u>612,752</u></u>

Consolidated Statements of Cash Flows

for the periods 1.1. - 31.3.2007 and 1.1. - 31.3.2006

	Notes	YTD 2007	YTD 2006
Cash flows from operating activities			
Profit from operations		4,058	3,760
Depreciation and amortization	9, 11	6,182	4,834
Gain on disposal of assets		(5)	(5)
Other calculated items		299	0
Changes in operating assets and liabilities		(4,110)	(2,513)
Cash generated by operations		<u>6,424</u>	<u>6,076</u>
Interest received		74	32
Interest paid		(4,809)	(3,386)
Taxes paid		422	(1,525)
Net cash provided by operating activities		<u>2,111</u>	<u>1,197</u>
Cash flows from investing activities			
Purchase of fixed assets	9, 11	(1,916)	(2,382)
Proceeds from sale of fixed assets		149	140
Acquisition of subsidiaries	28	(10,763)	(39,474)
Additions in loans and receivables		0	(5)
Installments of loans and receivables	13	7	7
Proceeds from sale of available for sale investments	14	0	3
		<u>(12,523)</u>	<u>(41,711)</u>
Cash flows from financing activities			
Short-term loans		5,850	4,623
Borrowing of long-term liabilities		10,401	19,336
Repayments of long-term liabilities		(4,208)	(474)
Exercised share options	17, 18	0	218
		<u>12,043</u>	<u>23,703</u>
Net change in cash and cash equivalents		1,631	(16,811)
Effects of foreign exchange adjustments		89	28
Cash and cash equivalents at beginning of year		<u>12,170</u>	<u>20,914</u>
Cash and cash equivalents at end of period		<u>13,890</u>	<u>4,131</u>
Other information:			
Net cash provided by operating activities:			
Net (Loss)/Profit for the period		(2,706)	571
Items not affecting cash		8,210	4,455
Working capital provided by operating activities		<u>5,504</u>	<u>5,026</u>
Changes in current assets and liabilities		(3,393)	(3,830)
Net cash provided by operating activities		<u>2,111</u>	<u>1,197</u>

Consolidated Statement of changes in Equity for the period ended 31 March 2007

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
Balance at 1 January 2006.....	4,160	104,162	3,771	40,736	152,829
Translation difference of shares in foreign companies.....			4,176		4,176
Net gains / losses not recognised in the income statement.....	0	0	4,176	0	4,176
Purchases of treasury stock.....	(5)	(707)			(712)
Exercised share options.....	15	971			986
Net profit for the year.....				4,360	4,360
Balance at 31 December 2006.....	4,170	104,426	7,947	45,096	161,639
Translation difference of shares in foreign companies.....			1,215		1,215
Net gains / losses not recognised in the income statement.....	0	0	1,215	0	1,215
Net loss for the period.....				(2,706)	(2,706)
Balance at 31 March 2007.....	4,170	104,426	9,162	42,390	160,148

Notes to the Financial Statements

1. Operations

Ossur hf. is a global orthopaedics company, specializing in the development, manufacture and sales of prosthetics, braces and supports and compression therapy products (Phlebology). 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, France, Australia and China 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, Foothill Ranch and Camarillo in California, Thorofare and Moorestown in New Jersey, and in Albion, Michigan, at Ossur Canada, in Canada, Ossur UK in Manchester, Gibaud Group (La Tour Finance) in St. Etienne and Trevoux in France and at Ossur hf. in Iceland. Part of the production is outsourced to China, Thailand and Taiwan.

According to the Company's organizational structure, the consolidation is divided into six divisions, i.e. Corporate Finance, responsible for overall financial management and global marketing; Manufacturing & Operations, responsible for all production and inventory management; R&D, responsible for product development, product management and quality control; Ossur Americas, responsible for sales, marketing and distribution in the USA, Canada and Latin America; Ossur Europe, responsible for sales, marketing and distribution in Europe, Middle East and Africa and Ossur Asia responsible for sales and marketing in Australia, Japan, China and other Asian countries.

2. Significant accounting policies

The condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended 31 December 2006. The condensed Consolidated Financial Statements have been prepared under the historical cost basis.

The accounting policies adopted are consistent with those followed in the preparation of the Company's Annual Financial Statements for the year ended 31 December 2006.

3. Quarterly statements

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net sales	80,380	63,844	62,755	65,500	60,034
Cost of goods sold	<u>(34,393)</u>	<u>(26,945)</u>	<u>(24,946)</u>	<u>(26,787)</u>	<u>(24,078)</u>
Gross profit	45,987	36,899	37,809	38,713	35,956
Other income	320	286	121	69	54
Sales and marketing exp.	(21,978)	(16,758)	(17,530)	(17,323)	(16,009)
Research and develop. exp.	(4,994)	(4,744)	(4,254)	(4,228)	(4,699)
General and admin. exp.	(15,277)	(9,785)	(9,085)	(8,753)	(8,542)
Restructuring expenses	0	(5,453)	0	0	(3,000)
Profit from operations	4,058	444	7,061	8,478	3,760
Financial income/(expenses)	<u>(7,852)</u>	<u>(5,807)</u>	<u>(3,887)</u>	<u>(5,987)</u>	<u>(4,921)</u>
Profit (loss) before tax	(3,794)	(5,363)	3,174	2,491	(1,161)
Income tax	<u>1,088</u>	<u>1,656</u>	<u>2,203</u>	<u>(372)</u>	<u>1,732</u>
Net profit (loss)	<u>(2,706)</u>	<u>(3,707)</u>	<u>5,377</u>	<u>2,119</u>	<u>571</u>

Notes to the Financial Statements

4. Net sales

Net sales are specified as follows according to markets:

	<u>YTD 2007</u>	<u>YTD 2006</u>
Americas.....	38,587	36,887
Europe.....	39,675	21,308
Asia.....	2,118	1,839
	<u>80,380</u>	<u>60,034</u>

5. Geographical segments

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

2007	<u>Americas YTD 2007</u>	<u>Europe YTD 2007</u>	<u>Asia YTD 2007</u>	<u>Eliminations YTD 2007</u>	<u>Consolidated YTD 2007</u>
Revenue					
External sales.....	38,587	39,675	2,118	0	80,380
Inter-segment sales.....	<u>3,400</u>	<u>13,967</u>	<u>1</u>	<u>(17,368)</u>	<u>0</u>
Total revenue.....	<u>41,987</u>	<u>53,642</u>	<u>2,119</u>	<u>(17,368)</u>	<u>80,380</u>

Inter-segment sales are calculated from external sales prices.

Result

Segment result.....	<u>1,159</u>	<u>1,281</u>	<u>46</u>	<u>1,572</u>	4,058
Financial income/(expenses).....					<u>(7,852)</u>
Profit (loss) before tax.....					(3,794)
Income tax.....					<u>1,088</u>
Net loss.....					<u>(2,706)</u>

Other information

Capital additions.....	944	953	19	0	1,916
Depreciation and amortization.....	4,100	2,077	5	0	6,182

Balance sheet

	<u>31.3.2007</u>	<u>31.3.2007</u>	<u>31.3.2007</u>	<u>31.3.2007</u>	<u>31.3.2007</u>
Assets					
Segment assets.....	387,900	776,773	3,328	(537,909)	<u>630,091</u>
Liabilities					
Segment liabilities.....	309,684	574,245	3,215	(417,201)	<u>469,943</u>

Notes to the Financial Statements

2006	Americas YTD 2006	Europe YTD 2006	Asia YTD 2006	Eliminations YTD 2006	Consolidated YTD 2006
Revenue					
External sales.....	36,887	21,308	1,839	0	60,034
Inter-segment sales.....	4,104	20,052	0	(24,156)	0
Total revenue.....	<u>40,991</u>	<u>41,360</u>	<u>1,839</u>	<u>(24,156)</u>	<u>60,034</u>
Result					
Segment result.....	<u>(2,380)</u>	<u>9,949</u>	<u>212</u>	<u>(4,021)</u>	3,760
Financial income/(expenses).....					<u>(4,921)</u>
Loss before tax.....					<u>(1,161)</u>
Income tax.....					<u>1,732</u>
Net profit.....					<u>571</u>
Other information					
Capital additions.....	945	952	19	0	1,916
Depreciation and amortization.....	3,903	931	0	0	4,834
Balance sheet					
	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>
Assets					
Segment assets.....	386,960	740,722	3,924	(518,854)	<u>612,752</u>
Liabilities					
Segment liabilities.....	308,242	546,089	3,197	(406,415)	<u>451,113</u>

6. Business segments

Current business segments for the Company are Prosthetics, Bracing and Support, Compression Therapy (Phlebology) 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:

	YTD 2007	YTD 2006
Prosthetics.....	30,166	26,892
Bracing and support.....	43,777	32,692
Compression Therapy (Phlebology).....	5,833	0
Other products.....	604	450
	<u>80,380</u>	<u>60,034</u>

Notes to the Financial Statements

7. Financial income / (expenses)

Interest income and (expenses) are specified as follows:

	YTD 2007	YTD 2006
Income from investments:		
Bank deposit.....	63	20
Dividends from trading investments.....	305	0
Other loans and receivables.....	0	(28)
Other interest income.....	3	12
	<u>371</u>	<u>4</u>
Finance costs:		
Interest on bank loans.....	(5,957)	(3,511)
Other interest expenses.....	(52)	(88)
	<u>(6,009)</u>	<u>(3,599)</u>
Exchange rate differences.....	(2,214)	(1,326)
	<u>(7,852)</u>	<u>(4,921)</u>

8. Income tax

Income tax are specified as follows:

	YTD 2007	YTD 2006
Current tax expenses.....	(554)	(192)
Deferred tax revenue.....	1,599	1,991
Exchange rate difference.....	43	(67)
	<u>1,088</u>	<u>1,732</u>

Reconciliation of effective tax rate:

	YTD 2007		YTD 2006	
	Amount	%	Amount	%
Loss from operations.....	<u>(3,794)</u>		<u>(1,161)</u>	
Income tax revenue calculated at 18%.....	683	(18%)	209	(18%)
Effect of different tax rates of other jurisdictions.....	743	(20%)	1,720	(148%)
Tax effect of expenses that are not deductible.....	(159)	4%	(141)	0%
Effect of change in tax rate.....	(269)	7%	(56)	5%
Other changes.....	91	(2%)	0	0%
	<u>1,088</u>	<u>(29%)</u>	<u>1,732</u>	<u>(149%)</u>

Notes to the Financial Statements

9. Property, plant and equipment

Operating fixed assets are specified as follows:

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2007.....	15,685	30,793	23,781	70,259
Additions.....	23	334	1,372	1,729
Acquired on acquisition of subsidiary.....	0	64	26	90
Exchange differences.....	130	123	58	311
Eliminated on disposal.....	0	(305)	(95)	(400)
Fully depreciated assets.....	0	(256)	(51)	(307)
At 31 March 2007.....	<u>15,837</u>	<u>30,754</u>	<u>25,091</u>	<u>71,682</u>
Accumulated depreciation				
At 1 January 2007.....	7,067	16,739	9,379	33,185
Charge for the period.....	133	1,005	1,214	2,352
Exchange differences.....	68	106	(13)	161
Eliminated on disposal.....	0	(245)	(11)	(256)
Fully depreciated assets.....	0	(256)	(51)	(307)
At 31 March 2007.....	<u>7,269</u>	<u>17,349</u>	<u>10,518</u>	<u>35,136</u>
Carrying Amount				
At 31 March 2007.....	<u>8,568</u>	<u>13,405</u>	<u>14,573</u>	<u>36,546</u>
At 31 December 2006.....	<u>8,618</u>	<u>14,054</u>	<u>14,402</u>	<u>37,074</u>

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

	YTD 2007	YTD 2006
Cost of goods sold	921	798
Sales and marketing expenses	58	53
Research and development expenses.....	49	62
General and administrative expenses	1,324	516
	<u>2,352</u>	<u>1,429</u>

The following rates are used for the depreciation:

- Buildings and sites 2 to 5%
- Machinery and equipment 12 to 20%
- Fixtures and office equipment 10 to 34%

Notes to the Financial Statements

10. Goodwill

	<u>31.3.2007</u>
Cost	
At 1 January 2007.....	316,593
Arising on acquisition of subsidiaries.....	9,754
Addition due to previous acquisitions.....	834
Exchange differences.....	837
At 31 March 2007.....	<u>328,018</u>
Carrying amount	
At 31 March 2007.....	<u>328,018</u>
At 31 December 2006.....	<u>316,593</u>

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

Notes to the Financial Statements

11. Other intangible assets

Cost	Cust./distrib.				Total
	relationship	Patent	Trademark	Other	
At 1 January 2007.....	0	15,678	25,982	49,455	91,116
Additions.....	0	175	12	0	187
Reclassification.....	35,159	116	8,312	(43,587)	0
Exchange differences.....	0	32	69	48	149
At 31 March 2007.....	35,159	16,001	34,375	5,916	91,452
Amortization					
At 1 January 2007.....	0	5,443	1,801	13,913	21,157
Charge for the period.....	2,044	588	582	616	3,830
Reclassification.....	8,092	0	2,432	(10,524)	0
Exchange differences.....	0	16	(78)	(74)	(136)
At 31 March 2007.....	10,137	6,047	4,737	3,931	24,852
Carrying Amount					
At 31 March 2007.....	25,022	9,954	29,638	1,985	66,600
At 31 December 2006.....	0	10,235	24,181	35,542	69,959

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

	YTD 2007	YTD 2006
Cost of goods sold.....	199	62
Sales and marketing expenses.....	2,155	1,859
Research and development expenses.....	1,119	1,134
General and administrative expenses.....	357	350
	3,830	3,405

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

Customer and distribution relationship 20 to 25%
 Patent 2 to 5%
 Trademark 10 to 34%
 Other 10 to 32%

Notes to the Financial Statements

12. The Consolidation

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

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Ossur Holding, AB.....	Sweden	100%	Holding
Ossur Nordic, AB.....	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS.....	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB.....	Sweden	100%	Healthcare consulting
Ossur Holdings, Inc.....	USA	100%	Holding
Ossur Engineering, Inc.....	USA	100%	Manufacturer
Ossur North America, Inc.....	USA	100%	Sales, distribution and services
Generation II USA, Inc.....	USA	100%	Manufacturer
Royce Medical Holdings, Inc.....	USA	100%	Holding
Royce Medical Company.....	USA	100%	Manufacturer, sales, distribution and services
Rigid Med. Techn., Inc.....	USA	100%	Services
Vistek, Inc.....	USA	100%	No operation
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
Empower Business Sol, Inc.....	USA	100%	Healthcare consulting
Trops Acquisition, Inc	USA	100%	Holding
Innovation Sports, LLP.....	USA	100%	Manufacturer, sales, distribution and services
Ortho Vantage, Inc.....	USA	100%	Services
Ossur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
Ossur Europe, BV.....	Netherlands	100%	Sales, distribution and services
Somax Orthopaedie, BV.....	Netherlands	100%	Sales, distribution and services
Somax International, 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
Ossur Holding France (SAS)...	France	100%	Holding
La Tour Finance (SAS).....	France	100%	Holding
Gibaud Pharma (EURL).	France	100%	Immaterial Operations
Gibaud (SAS).....	France	100%	Manufacturer, sales, distribution and services
Derby Finances (SAS).	France	50%	No operation
Tournier Bottu (SAS).	France	100%	Manufacturing
Gibaud Espania (SA)..	Spain	100%	Sales, distribution and services
Gibaud Suisse (SA).....	Swiss	100%	Sales, distribution and services
Ossur Asia Pacific PTY, Ltd.....	Australia	100%	Sales, distribution and services
Ossur Prosth. & Rehabilit. Co, Ltd.	China	100%	Manufacturer, sales, distribution and services
Gentleheal ehf.....	Iceland	100%	Manufacturer and sales

Notes to the Financial Statements

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

On 7 February 2007 Ossur acquired Somas Orthopaedie BV and Somas International BV in Holland. Somas is a sales and distribution company in the Benelux area.

GBM Medical AB has been merged into Ossur Nordic AB, GII Holding Belgium has been legally dissolved and Medistox name was changed to Ossur UK Ltd.

Generation II Orthotics, Inc was renamed Ossur Canada, Inc.

13. Loans and receivables

Long-term investments are specified as follows:

	<u>Loans and receivables</u>
Balance at 1 January 2006.....	780
Additions during the period.....	368
Acquired on acquisition of subsidiary.....	820
Changes during the period.....	(452)
Exchange differences.....	10
At 1 January 2007.....	<u>1,526</u>
Changes during the period.....	(241)
Exchange differences.....	(66)
At 31 March 2007.....	<u>1,219</u>

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

14. Trade and other receivables

Long-term investments are specified as follows:

	<u>Trade and other receivable</u>
At 1 January 2006.....	593
Fair value and exchange rate adjustments.....	89
At 1 January 2007.....	<u>682</u>
Fair value and exchange rate adjustments.....	(32)
At 31 March 2007.....	<u>650</u>

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

Notes to the Financial Statements

15. Inventories

	<u>31.3.2007</u>	<u>31.12.2006</u>
Raw material.....	17,730	17,600
Work in progress.....	2,247	2,409
Finished goods	<u>30,626</u>	<u>27,367</u>
	<u>50,603</u>	<u>47,376</u>

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,903 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,252 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

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

16. Accounts and other receivables

Accounts receivables:

	<u>31.3.2007</u>	<u>31.12.2006</u>
Nominal value.....	57,763	51,024
Allowances for doubtful accounts.....	(1,275)	(1,162)
Allowances for sales return.....	(716)	(715)
	<u>55,772</u>	<u>49,147</u>

The average credit period taken on sale of goods is 46 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:

	<u>31.3.2007</u>	<u>31.12.2006</u>
VAT refundable.....	2,181	1,501
Prepaid expenses.....	6,462	5,594
Other.....	<u>5,310</u>	<u>7,637</u>
	<u>13,953</u>	<u>14,732</u>

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

Bank balances and cash:

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

Notes to the Financial Statements

17. Share capital

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

	<u>Shares</u>	<u>Nominal value</u>
Total share capital at period-end.....	384.9	4,170

Shares issued and outstanding at period-end numbered a total of 384,940,447. The nominal value of each share is one Icelandic krona. No treasury stock is held at period end.

Changes in share capital are as follows:

	<u>Share capital</u>
Share capital as of 1 January 2006	4,160
Purchases of treasury stock	(5)
Exercised share options.....	15
Share capital as of 1 January 2007.....	<u>4,170</u>
Balance at 31 March 2007.....	<u>4,170</u>

18. Capital reserves

	<u>Share premium</u>	<u>Statutory reserves</u>	<u>Total</u>
Balance at 1 January 2006.....	103,119	1,043	104,162
Purchases of treasury stock.....	(707)	0	(707)
Exercised share options.....	971	0	971
Balance at 1 January 2007.....	<u>103,383</u>	<u>1,043</u>	<u>104,426</u>
Balance at 31 March 2007.....	<u>103,383</u>	<u>1,043</u>	<u>104,426</u>

19. Translation reserves

	<u>Translation reserves</u>
Balance at 1 January 2006.....	3,771
Exchange differences arising on translation of subsidiaries.....	4,176
Balance at 1 January 2007.....	<u>7,947</u>
Exchange differences arising on translation of subsidiaries.....	1,215
Balance at 31 March 2007.....	<u>9,162</u>

20. Accumulated profits

	<u>Accumulated profits</u>
Balance at 1 January 2006.....	40,736
Net profit for the period.....	4,360
Balance at 1 January 2007.....	<u>45,096</u>
Net loss for the period.....	(2,706)
Balance at 31 March 2007.....	<u>42,390</u>

All amounts in thousands of USD

Notes to the Financial Statements

21. Stock Option Contracts and Obligations to Increase Share Capital

At 7 February 2007 the Board agreed to a new share option agreements for the CEO and the six members of the Executive Committee. The key term of these agreements is that the CEO is granted an option to purchase 1,250,000 shares of common stock and each member of the Executive Committee is granted an option to purchase 308,000 shares of common stock. The total number of shares to be provided is 3,098,000 or 0,89% of the Company's current outstanding stock capital.

These options will only be possible to vest during the month of December 2011. The contract rate is ISK 113.4 per share, calculated as the average of the Company's share price during the last 20 working days prior to the annual general meeting dated 23 February 2007. Estimated costs due to the stock option contracts can reach USD 0,7 million (ISK46 million) which will be expensed over the next five years.

22. Loans from credit institutions

Long-term liabilities are specified as follows:

	<u>31.3.2007</u>	<u>31.12.2006</u>
Loans in USD	141,528	144,002
Loans in EUR	79,743	69,702
	221,271	213,704
Current maturities.....	<u>(15,228)</u>	<u>(15,089)</u>
Loans from credit institutions.....	<u>206,043</u>	<u>198,615</u>

Aggregated annual maturities are as follows:

In 1.4.2007 - 31.3.2008 / 2007.....	15,228	15,089
In 1.4.2008 - 31.3.2009 / 2008.....	16,674	15,149
In 1.4.2009 - 31.3.2010 / 2009.....	20,528	20,326
In 1.4.2010 - 31.3.2011 / 2010.....	15,427	20,378
In 1.4.2011 - 31.3.2012 / 2011.....	71,168	71,269
Later.....	82,246	71,493
	<u>221,271</u>	<u>213,704</u>

The average interest rates were as follows:

	<u>YTD 2007</u>	<u>YTD 2006</u>
Bank loans.....	5.99%	5.99%

Concerning the Company's USD 200 million term loan agreement there are still USD 10 million 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 Company has pledged buildings, machinery, equipment and inventories to secure banking facilities granted.

Notes to the Financial Statements

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 gain of USD 210 thousand was recorded in the Income Statement due to the swap agreements.

23. Other long-term liabilities

Other long-term liabilities are specified as follows:

	<u>31.3.2007</u>	<u>31.12.2006</u>
Other liabilities in USD	450	577
Other liabilities in SEK.....	534	545
Other liabilities in GBP.....	1,582	1,747
Other liabilities in AUD.....	97	92
	<u>2,663</u>	<u>2,961</u>
Current maturities.....	<u>(197)</u>	<u>(242)</u>
Other long-term liabilities.....	<u>2,466</u>	<u>2,719</u>

Aggregated annual maturities are as follows:

In 1.4.2007 - 31.3.2008 / 2007.....	197	242
In 1.4.2008 - 31.3.2009 / 2008.....	1,707	1,274
In 1.4.2009 - 31.3.2010 / 2009.....	259	289
In 1.4.2010 - 31.3.2011 / 2010.....	162	162
Later.....	338	994
	<u>2,663</u>	<u>2,961</u>

24. Deferred tax

	<u>Deferred tax asset</u>	<u>Deferred tax liabilities</u>	<u>Total</u>
At 1 January 2007.....	63,485	(33,204)	30,281
Calculated tax for the period.....	(670)	1,758	1,088
Income tax payable for the period.....	0	554	554
Exchange differences.....	25	(68)	(43)
At 31 March 2007.....	<u>62,840</u>	<u>(30,960)</u>	<u>31,880</u>

Notes to the Financial Statements

25. Long-term liabilities - due within one year

	<u>31.3.2007</u>	<u>31.12.2006</u>
Loans from credit institutions.....	15,228	15,089
Other long-term liabilities.....	<u>197</u>	<u>242</u>
	<u>15,425</u>	<u>15,331</u>

26. Bank loans

In December 2006 the Company entered into a EUR 100 million (USD 135 million) bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. The bridge loan is included in the Company's current liabilities at the end of the period. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio will temporarily be below its policy ratio. This temporary deviation has been approved by the Company's Board of Directors.

27. Provisions

	<u>Warranty Provisions</u>	<u>Restructuring Provisions</u>	<u>Total</u>
At 1 January 2007.....	2,745	8,207	10,952
Additional provision in the period.....	448	0	448
Exchange differences.....	0	10	10
Utilization of provision.....	<u>(70)</u>	<u>(1,488)</u>	<u>(1,558)</u>
At 31 March 2007.....	<u>3,123</u>	<u>6,729</u>	<u>9,852</u>

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

Notes to the Financial Statements

28. Acquisition of Somas

On 7 February 2007 Ossurs' subsidiary Ossur Europe BV acquired 100 per cent of the issued share capital of Somas Orthopadie BV and Somas International BV for a cash consideration of USD 11 million. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 7.2.2007
Net assets acquired:	
Operating fixed assets.....	90
Inventories.....	594
Other current assets.....	1,224
Bank balances and cash.....	133
Current liabilities.....	(819)
	<u>1,222</u>
Goodwill.....	9,754
Total consideration.....	<u>10,976</u>
Satisfied by cash.....	10,976
	<u>10,976</u>
Net cash outflow arising on acquisition:	
Cash consideration.....	10,976
Bank balances and cash acquired.....	(213)
	<u>10,763</u>

Somas is a leading distributor of bracing and support products in the Benelux area, with over 15% market share. The acquisition is expected to add approximately USD 5 million to sales in 2007 with an EBITDA margin of around 20%. Somas is an important addition to the platform for the Company's further expansion in Europe.

29. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 30 April 2007.