Ossur hf.

Consolidated Financial Statements

2006

Ossur hf.
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Id-no. 560271-0189

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Table of Contents

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 Consolidated 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 2006. Ossur Consolidated 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, France, China and Australia. The Company sells its products world wide, but the principal market areas are North America, Europe and Asia. In the year 2006, 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., the Gibaud Group in France, Ossur in China and Ossur Asia-Pacific in Australia.

The total sales of the Ossur Consolidation amounted to USD 252.1 million, compared to USD 160.7 million in the preceding year. This represents an increase in sales of approximately 57%. Net profit amounted to USD 4.4 million compared to USD 11.7 million in 2005. Net profit excluding one time restructuring cost related to the acquisitions of Innovations Sports and the Gibaud Group amounted to USD 9.7 million. Earnings per Share (EPS) amounted to US cents 1.13 compared to US cents 3.53 in 2005. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 39.5 million compared to USD 25.8 million in the preceding year. EBITDA excluding one time restructuring cost related to the acquisitions of Innovation Sports and the Gibaud Group amounted to USD 47.9 million.

The total assets of the Ossur Consolidation amounted to USD 612.7 million at year-end, liabilities were 451.1 million, and equity was 161.6 million. The equity ratio at year-end was 26%, compared to 37% the preceding year. In December 2006 the Company entered into a EUR 100 million bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. An equity offering is planned to take place in 2007 to repay the loan. As a result of this, the Company's equity ratio is temporarily below the minimum ratio according to the Company's Financial Risk Management Policy. This deviation has been approved by the Board of Directors.

In the course of the year the Company employed on average 1,190 employees, of which 250 were employed by the parent company in Iceland.

The share price of the Company was 113 at year-end, compared to 114 at the beginning of the year. The market value of the Company at year-end was USD 606 million and decreased 13% over the year. At year-end, shareholders in Ossur hf. numbered 2,956, compared to 3,156 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 36,9% and Eyrir Invest ehf. Holding 15,4%

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.

Report by the Board of Directors and President and CEO

The Board of Directors does not recommend payment of dividends to shareholders in 2007. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

The Board of Directors and President and CEO of Ossur hf. hereby comfirm the Consolidated Financial Statements of Ossur for the year 2006 with their signatures.

Reykjavik, 7 February 2007

Board of Directors

Niels Jacobsen
Chairman of the Board

Ossur Kristinsson

Thordur Magnusson

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		2006	2005	2004	2003	2002
Growth						
Net sales	USD '000	252.133	160.729	124.399	94.467	81.284
EBITDA	USD '000	39.493	25.832	25.045	9.428	14.310
Profit from operations	USD '000	19.743	16.525	20.374	6.112	11.501
Employees	Number	1.190	680	568	480	431
Net income	USD '000	4.360	11.688	15.227	4.661	10.056
Total assets	USD '000	612.752	407.986	108.915	102.126	71.425
Operational performance						
Cash provided by operating activities	USD '000	15.988	15.481	16.600	10.383	10.503
- as ratio to total debt	%	5	10	30	23	36
- as ratio to net profit		3,7	1,3	1,1	2,2	1,0
Working capital from operating activities	USD '000	24.663	18.954	23.095	8.774	14.661
- as ratio to long-term debt and stockh. equity	%	6	8	27	13	30
Liquidity and solvency						
Quick ratio		0,4	1,4	1,4	1,2	1,5
Current ratio		0,6	2,1	2,2	1,8	2,3
Equity ratio	%	26	37	50	43	56
Asset utilization and efficiency						
Net sales pr. employee	USD '000	212	236	219	197	189
Total asset turnover		0,5	0,6	1,2	1,1	1,3
Grace period granted	Days	46	44	44	47	44
Profitability						
Return on capital	%	5	10	20	9	20
Return on common equity	%	3	15	31	11	29
Operating profit as ratio to net sales	%	8	10	16	6	14
Net income before taxes as ratio to net sales	%	0	8	15	6	15
Net income for the period as ratio to net sales	%	2	7	12	5	12
Market						
Value of stock	USD '000	605.572	695.125	395.514	201.237	219.584
Price/earnings ratio (P/E)		138,9	59,5	26,0	43,2	21,8
Price/book ratio		3,7	4,5	7,2	4,6	5,5
Number of shares	Millions	385	385	318	328	328
Earnings per Share (EPS)	US Cent	1,13	3,53	4,80	1,45	3,12
Diluted Earnings per Share, (Diluted EPS)	US Cent	1,13	3,52	4,80	1,44	3,10
Cash EPS	US Cent	6,27	6,34	6,28	2,48	3,99
Diluted Cash EPS	US Cent	6,27	6,33	6,27	2,47	3,97

Independent Auditor's Report

To the Board of Directors and shareholders of Ossur hf.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Ossur hf. and subsidiaries, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 financial statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 7 February 2007

Deloitte hf.

Sigurdur Pall Hauksson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the years 2006 and 2005

	Notes	2006	2005	2006 Q4	2005 Q4
Net sales	4	252.133	160.729	63.844	49.590
Cost of goods sold		(102.756)	(66.338)	(26.945)	(20.367)
Gross profit		149.377	94.391	36.899	29.223
Other income		530	1.870	286	277
Sales and marketing expenses		(67.620)	(38.103)	(16.758)	(13.521)
Research and development expenses		(17.925)	(12.408)	(4.744)	(4.057)
General and administrative expenses		(36.165)	(24.806)	(9.785)	(7.680)
Restructuring expenses	9	(8.453)	(4.419)	(5.453)	(304)
Profit from operations		19.743	16.525	444	3.938
Financial income/(expenses)	10	(20.602)	(4.280)	(5.807)	(1.737)
Profit (loss) before tax		(859)	12.245	(5.363)	2.201
Income tax	11	5.219	(557)	1.656	887
Net profit (loss)		4.360	11.688	(3.707)	3.088
Earnings per Share	12				
Basic Earnings per Share		1,13	3,53	(0,96)	0,81
Diluted Earnings per Share		1,13	3,52	(0,96)	0,81
Cash Earnings per Share		6,27	6,34	0,38	1,86
Diluted Cash Earnings per Share		6,27	6,33	0,38	1,85

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	31.12.2006	31.12.2005
Fixed assets			
Property, plant and equipment	13	37.074	22.130
Goodwill	14	316.593	232.134
Other intangible assets	15	69.959	46.694
Loans and receivables	17	1.526	780
Available for sale investments	18	682	593
Deferred tax asset	29	63.485	23.542
		489.319	325.873
Current assets			
Inventories	19	47.376	25.529
Accounts receivables	20	49.147	28.314
Other receivables	20	14.732	7.356
Bank balances and cash	20	12.178	20.914
		123.433	82.113
Total assets		612.752	407.986

All amounts in thousands of USD

31 December 2006 and 2005

Equity and liabilities

	Notes	31.12.2006	31.12.2005
Stockholders' equity			
Share capital	21	4.170	4.160
Capital reserves	22	104.426	104.162
Translation reserves	23	7.947	3.771
Accumulated profits	24	45.096	40.736
		161.639	152.829
Long-term liabilities			
Loans from credit institutions	26	198.615	185.147
Obligation under finance leases	27	87	32
Other long-term liabilities	28	2.632	2.350
Deferred tax liabilities	29	33.204	27.832
		234.538	215.361
Current liabilities			
Long-term liabilities - due within one year	30	15.331	11.048
Accounts payable		22.132	8.844
Bank loans	31	148.484	0
Tax liabilities		2.301	917
Other current liabilities		17.375	13.508
Provisions	32	10.952	5.479
		216.575	39.796
Total equity and liabilities		612.752	407.986

All amounts in thousands of USD

Consolidated Statements of Cash Flows for the years 2006 and 2005

	Notes	2006	2005
Cash flows from operating activities			
Profit from operations		19.743	16.525
Depreciation and amortization	13, 15	19.750	9.307
Gain on disposal of assets		(28)	(372)
Other calculated items		0	(1.000)
Changes in operating assets and liabilities		(6.779)	526
Cash generated by operations		32.686	24.986
Interest received		208	486
Interest paid		(14.917)	(5.414)
Taxes paid		(1.989)	(4.577)
Net cash provided by operating activities		15.988	15.481
Cash flows from investing activities			
Purchase of fixed assets	13, 15	(10.953)	(7.990)
Proceeds from sale of fixed assets		257	142
Acquisition of subsidiaries	33-35	(169.416)	(242.969)
Sale of subsidiaries		0	854
Additions in loans and receivables		(368)	(25)
Installments of loans and receivables	17	452	184
Proceeds from sale of available for sale investments	18	0	145
Proceeds from sale of trading investments		976	0
		(179.052)	(249.659)
Cash flows from financing activities			
Short-term loans		153.072	0
Borrowing of long-term liabilities		15.829	204.018
Repayments of long-term liabilities		(14.978)	(40.381)
Purchases of treasury stock	21, 22	(712)	0
Paid in share capital	21	0	83.357
Exercised share options	21, 22	986	3.929
		154.197	250.923
Net change in cash and cash equivalents		(8.867)	16.745
Effects of foreign exchange adjustments		131	(128)
Cash and cash equivalents at beginning of year		20.914	4.297
Cash and cash equivalents at end of period		12.178	20.914
Other information:			
Net cash provided by operating activities:			
Net profit for the period		4.360	11.688
Items not affecting cash		20.303	7.266
Working capital provided by operating activities		24.663	18.954
Changes in current assets and liabilities		(8.675)	(3.473)
Net cash provided by operating activities		15.988	15.481

All amounts in thousands of USD

Consolidated Statement of changes in Equity for the period ended 31 December 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 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 period				4.360	4.360
Balance at 31 December 2006	4.170	104.426	7.947	45.096	161.639

All amounts in thousands of USD

Notes to the Financial Statements

1. Operations

Ossur hf. is a global supplier of orthopaedics devices. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs, braces, compression therapy products 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, 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 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, Gibaud Group (La Tour Finance) in St. Etiene and Trevoux in France 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 Inc., Ossur UK, Ossur Nordic, Ossur Europe, Gibaud in France (La Tour Finance), Ossur Asia and Ossur Asia Pacific.

2. Summary of Significant Accounting Policies

The Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

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.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business Combination

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company'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 or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Risk management

Financial risk management is governed by the Company's Financial Risk Management Policy, approved by the Board of Directors. The policy sets limits to the extent of financial risks and guidelines for financial transactions in general. The general policy is to apply natural currency hedging to the extent possible and prohibit any speculative trading of financial instruments.

The Company's policy is to hedge foreign exchange rate risk exposure only by passive use of currency borrowings, seeking to align the currency combination of liabilities to that of revenues. At the end of 2006, approximately 70% of total interest bearing liabilities are in USD and 30% in EUR.

The Company's policy is to maintain a favourable distribution and a certain term on gross debt. Approximately 66% is in the form of bullet loans that will mature 2011 and 2012. This limits considerably the Company's cash flow - and liquidity risk. The loans are subject to financial covenants, the major ones being debt to EBITDA ratio and equity ratio. In December 2006 the Company entered into a EUR 100 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 2006. 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.

The Company's exposure to interest rate fluctuations on its borrowings is managed through the use of interest rate swap agreements. Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates into fixed rates of a weighted average of 5.99% (including margin) throughout the lifetime of the loans.

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

The company is outset for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied; the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

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

The individual financial statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates in. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units ('CU'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in Currency Units using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 inventiories 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.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities and development is recognised as an expense in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

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

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has started to implement it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

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 Company's obligation.

Notes to the Financial Statements

3. Quarterly statements

	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Total 2006
Net sales	60.034	65.500	62.755	63.844	252.133
Cost of goods sold	(24.078)	(26.787)	(24.946)	(26.945)	(102.756)
Gross profit	35.956	38.713	37.809	36.899	149.377
Other income	54	69	121	286	530
Sales and marketing exp.	(16.009)	(17.323)	(17.530)	(16.758)	(67.620)
Research and develop. exp.	(4.699)	(4.228)	(4.254)	(4.744)	(17.925)
General and admin. exp.	(8.542)	(8.753)	(9.085)	(9.785)	(36.165)
Restructuring expenses	(3.000)	0	0	(5.453)	(8.453)
Profit from operations	3.760	8.478	7.061	444	19.743
Financial income/(expenses)	(4.921)	(5.987)	(3.887)	(5.807)	(20.602)
Profit (loss) before tax	(1.161)	2.491	3.174	(5.363)	(859)
Income tax	1.732	(372)	2.203	1.656	5.219
Net profit (loss)	571	2.119	5.377	(3.707)	4.360
EBITDA	8.594	13.144	12.138	5.617	39.493

4. Net sales

Net sales are specified as follows according to markets:

	2006	2005
North America	156.017	93.264
Europe, other	59.751	37.370
Nordic	20.395	18.421
International markets	15.970	11.674
	252.133	160.729

Net sales are specified as follows according to currency:

	2006	2005
Canadian dollar, CAD	7.290	10.145
Swiss Franc, CHF	1.128	204
Euro, EUR	35.841	33.344
British Pound, GBP	21.857	2.601
Icelandic Krona, ISK	2.699	2.443
Australian dollar, AUD	2.650	772
Norwegian Krona, NOK	6.655	5.129
Swedish Krona, SEK	15.034	10.007
US Dollar, USD	158.979	96.084
	252.133	160.729

All amounts in thousands of USD

Notes to the Financial Statements

5. Geographical segments

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

2006	North America 2006	Europe, other 2006	Nordic 2006	International markets 2006	Eliminations 2006	Consolidated 2006
Revenue						
External sales........................	156.017	59.751	20.395	15.970	0	252.133
Inter-segment sales..............	16.148	6.565	65.546	0	(88.259)	0
Total revenue.........................	172.165	66.316	85.941	15.970	(88.259)	252.133

Inter-segment sales are calculated from external sales prices.

Result						
Segment result......................	(1.205)	(1.208)	23.800	1.784	(3.428)	19.743
Financial income/(expenses)........						(20.602)
Profit (loss) before tax........						(859)
Income tax........						5.219
Net profit........						4.360

Other information						
Capital additions..................	4.386	2.530	3.941	96	0	10.953
Depreciation and amortization..........................	15.521	2.499	1.721	9	0	19.750

Balance sheet	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006	31.12.2006
Assets						
Segment assets......................	386.960	189.852	550.870	3.924	(518.854)	612.752
Liabilities						
Segment liabilities................	308.242	150.204	395.885	3.197	(406.415)	451.113

All amounts in thousands of USD 19

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
Result						
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

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:

	2006	2005
Prosthetics	115.754	103.655
Orthotics	135.036	56.168
Other products	1.343	906
	252.133	160.729

All amounts in thousands of USD

Notes to the Financial Statements

7. Salaries

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

	2006	2005
Salaries	57.799	43.726
Salary-related expenses	20.548	11.204
	78.347	54.930
Average number of positions	1.190	680

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

	2006	2005
Cost of goods sold	26.676	20.166
Sales and marketing	29.802	18.518
Research and development	7.678	6.011
General and administrative	14.191	10.235
	78.347	54.930

Management salaries and benefits

Board of Directors:	Salaries and related exp.	Exercised share options	Shares owned
Niels Jacobsen Chairman of the Board	50	0	0
Thordur Magnusson Vice Chairman	20	0	8.456
Ossur Kristinsson	98	0	37.526.907
Kristjan Tomas Ragnarsson	30	0	573.789
Sigurbjorn Thorkelsson	20	0	528.184

Excecutive committee:			
Jon Sigurdsson President and CEO	648	0	24.462.075
Hjorleifur Palsson CFO	272	1.000.000	1.000.000
Egill Jonsson VP of Manufacturing & Operations	272	0	22.749
Arni Alvar Arason VP of Sales and Marketing	272	0	2.124.450
Hilmar Bragi Janusson VP of R&D	272	100.000	3.660.347
Eythor Bender Presid. of Ossur North America	397	75.000	2.027.900
Olafur Gylfason Man. Director of Ossur Europe	261	0	476.368

In addition to salaries and related expenses, the CFO realised 1,000,000 shares through the exercise of stock options. The CFO purchased the shares at the exercise price of ISK 46, the market value of these shares was ISK 124.5 at the same time.
The VP of R&D realised 100,000 shares through the exercise of stock options. The purchase price was 73.7 and the market value of these shares was ISK 112 at the exercise date.
The Presid. of Ossur North America realised 75,000 shares through the exercise of stock options. The purchase price was ISK 58.5 and the market value of these shares was ISK 108.5 at the exercise date.
There were no outstanding share options in year end.

All amounts in thousands of USD

8. Fees to Auditors

	2006	2005
Audit of financial statements	436	322
Review of interim financial statements	289	118
Other services	620	893
	1.345	1.333

9. Restructuring costs

In connection with the acquisition of the US based Innovation Sports Inc., and the Gibaud Group in France (La Tour Finance), USD 8,5 million restructuring and integration costs have been expensed one time in the income statement. The costs cover areas such as restructuring of management, manufacturing, restructuring and consolidation of finance and back office functions and severance payments.

10. Financial income / (expenses)

	2006	2005
Income from investments:		
Bank deposit	97	449
Dividends from trading investments	7	0
Other loans and receivables	16	1
Available for sale investments	34	90
Other interest income	89	28
	243	568
Finance costs:		
Interest on bank loans	(15.084)	(6.008)
Interest on obligations under finance leases	(12)	(24)
Other interest expenses	(170)	(208)
	(15.266)	(6.240)
Exchange rate differences	(5.579)	1.392
	(20.602)	(4.280)

All amounts in thousands of USD

11. Income tax expense

Income tax expenses are specified as follows:

	2006	2005
Current tax expenses	(639)	(2.358)
Deferred tax expenses	6.220	1.315
Exchange rate difference	(362)	486
	5.219	(557)

Reconciliation of effective tax rate:

	2006		2005	
	Amount	%	Amount	%
Profit from operations	(859)		12.245	
Income tax expense calculated at 18%	155	18%	(2.204)	(18%)
Effect of different tax rates of other jurisdictions	6.590	767%	1.062	9%
Deductable expenses accounted in equity	(582)	(68%)	0	0%
Effect of non taxable income	0	0%	180	1%
Tax effect of expenses that are not deductable	2	0%	(139)	(1%)
Effect of change in tax rate	(56)	(7%)	471	4%
Other changes	(890)	(104%)	73	1%
	5.219	608%	(557)	(5%)

12. Earnings per share

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

	2006	2005
Net profit	4.360	11.688
Total average number of shares outstanding during the period (in thousands)	384.262	331.365
Total average number of shares including potential shares (in thousands)	384.296	331.933
Basic Earnings per Share (US cent)	1,13	3,53
Diluted Earnings per Share (US cent)	1,13	3,52
Cash Earnings per Share	6,27	6,34
Diluted Cash Earnings per Share	6,27	6,33

	Q4 2006	Q4 2005
Net profit (loss) for Q4	(3.707)	3.088
Total average number of shares outstanding during Q4 (in thousands)	384.923	381.246
Total average number of shares including potential shares (in thousands)	384.959	381.920
Basic Earnings per Share (US cent)	(0,96)	0,81
Diluted Earnings per Share (US cent)	(0,96)	0,81
Cash Earnings per Share	0,38	1,86
Diluted Cash Earnings per Share	0,38	1,85

13. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2006	3.161	21.625	13.882	38.668
Additions	0	1.548	8.880	10.428
Acquired on acquisition of subsidiary	12.403	8.139	1.999	22.541
Exchange differences	121	588	436	1.145
Eliminated on disposal	0	(275)	(867)	(1.142)
Fully depreciated assets	0	(832)	(549)	(1.381)
At 31 December 2006	15.685	30.793	23.781	70.259
Accumulated depreciation				
At 1 January 2006	610	9.769	6.159	16.538
Charge for the year	109	3.059	3.395	6.563
Acquired on acquisition of subsidiary	6.213	4.459	907	11.579
Exchange differences	135	301	225	661
Eliminated on disposal	0	(155)	(758)	(913)
Fully depreciated assets	0	(694)	(549)	(1.243)
At 31 December 2006	7.067	16.739	9.379	33.185
Carrying Amount				
At 31 December 2006	8.618	14.054	14.402	37.074
At 31 December 2005	2.551	11.856	7.723	22.130

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

	2006	2005
Cost of goods sold	2.982	2.315
Sales and marketing expenses	333	209
Research and development expenses	271	141
General and administrative expenses	2.977	1.653
	6.563	4.318

The following rates are used for the depreciation:

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

All amounts in thousands of USD 24

14. Goodwill

	2006
Cost	
At 1 January 2006	232.134
Reclassification of Goodwill in Royce to deferred tax assets	(35.862)
Arising on acquisition of subsidiaries	116.977
Exchange differences	3.344
At 31 December 2006	316.593
Carrying amount	
At 31 December 2006	316.593
At 31 December 2005	232.134

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.

All amounts in thousands of USD

15. Other intangible assets

	Patent	Trademark	Other	Total
Cost				
At 1 January 2006	13.052	10.518	30.452	54.022
Additions	193	14	318	525
Arising on acquisition of a subsidiary	2.390	15.102	18.567	36.060
Exchange differences	62	348	118	528
Eliminated on disposal of a subsidiary	(19)	0	0	(19)
At 31 December 2006	15.678	25.982	49.455	91.116
Amortization				
At 1 January 2006	2.460	552	4.316	7.328
Charge for the period	2.394	1.213	9.580	13.187
Acquired on acquisition of subsidiary	611	0	0	611
Eliminated on disposal of a subsidiary	(19)	0	0	(19)
Exchange differences	(3)	36	17	50
At 31 December 2006	5.443	1.801	13.913	21.157
Carrying Amount				
At 31 December 2006	10.235	24.181	35.542	69.959
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:

	2006	2005
Cost of goods sold	246	164
Sales and marketing expenses	7.172	2.706
Research and development expenses	4.321	1.500
General and administrative expenses	1.448	619
	13.187	4.989

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%
Other 10 to 32%

All amounts in thousands of USD

16. The Consolidation

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

Name of subsidiary	Place of registration and operation	Ownership	Principal activity
Ossur Holding, AB............................	Sweden	100%	Holding
Ossur Nordic, AB..........................	Sweden	100%	Sales, distribution and services
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
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
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 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%	No operation

All amounts in thousands of USD

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 specializing 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 Company founded a new company in China, Ossur Prosthetics and Rehabilitation Co., Ltd. The company specializes in manufacturing, sales, distribution and services.

On 21 December 2006 Ossur acquired the French company Gibaud Group (La Tour Finance). The company specializes in development, manufacturing and sales of braces and support products and compression therapy products.

17. 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	368
Acquired on acquisition of subsidiary	820
Installments during the period	(452)
Exchange differences	10
At 31 December 2006	1.526

The investments included above represent investments in bonds and other long-term receivables which present the Consolidation with opportunity for return through interest income and trading gains. The investments are valued at cost, less an allowance based on impairment by the management.

18. Available for sale investments

	Available for sale
At 1 January 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
Fair value and exchange rate adjustments	89
At 31 December 2006	682

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 28

19. Inventories

	31.12.2006	31.12.2005
Raw material	17.600	10.063
Work in progress	2.409	1.892
Finished goods	27.367	13.574
	47.376	25.529

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 12,764 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,659 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.

20. Accounts and other receivable

Accounts receivable:

	31.12.2006	31.12.2005
Nominal value	51.024	29.978
Allowances for doubtful accounts	(1.162)	(963)
Allowances for sales return	(715)	(701)
	49.147	28.314

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:

	31.12.2006	31.12.2005
VAT refundable	1.501	2.556
Prepaid expenses	5.594	4.031
Other	7.637	769
	14.732	7.356

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

21. Share capital

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

	Shares	Ratio	Nominal value
Total share capital at period-end	384,9	100,0%	4.170
	384,9	100,0%	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.

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	4.160
Purchases of treasury stock	(5)
Exercised share options	15
Balance at 31 December 2006	4.170

22. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2005	16.951	1.043	17.994
Exercised share options	3.896	0	3.896
Paid in share capital	82.272	0	82.272
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 31 December 2006	103.383	1.043	104.426

23. 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	4.176
Balance at 31 December 2006	7.947

24. 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	4.360
Balance at 31 December 2006	45.096

25. Stock Option Contracts and Obligations to Increase Share Capital

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

	1/1 - 31/12 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	(1.340)	51,63	(3.463)	72,15
Outstanding at the end of the period	0	0,00	1.340	50,31
Exercisable at the end of the period	0	0,00	340	62,97

At 31 December 2006, the total outstanding number of shares in Ossur hf. amounted to 384,940,447.

26. Loans from credit institutions

	Remaining balances	
	31.12.2006	31.12.2005
Loans in USD	144.002	136.989
Loans in EUR	69.702	57.548
	213.704	194.537
Current maturities	(15.089)	(9.390)
Loans from credit institutions	198.615	185.147

Aggregated annual maturities are as follows:

In 2007 / 2006	15.089	9.390
In 2008 / 2007	15.149	14.256
In 2009 / 2008	20.326	14.295
In 2010 / 2009	20.378	19.282
In 2011 / 2010	71.269	19.344
Later	71.493	117.970
	213.704	194.537

The average interest rates were as follows:

	2006	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 gain of USD 158 thousand was recorded in the Income Statement due to the swap agreements.

27. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Finance leases in USD	120	37	117	37
Finance leases in EUR	30	190	30	184
	150	227	147	221
Current maturities	(59)	(193)	(60)	(189)
Obligation under finance leases	91	34	87	32

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
In 2007 / 2006	59	193	60	189
In 2008 / 2007	27	34	25	32
In 2009 / 2008	31	0	28	0
In 2010 / 2009	31	0	30	0
In 2011 / 2010	4	0	4	0
	152	227	147	221
Less: future finance charges	(5)	(6)		
Remaining balances	147	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.

All amounts in thousands of USD

28. Other long-term liabilities

	Remaining balances 31.12.2006	31.12.2005
Other liabilities in USD	430	639
Other liabilities in EUR	0	118
Other liabilities in SEK	545	944
Other liabilities in GBP	1.747	2.060
Other liabilities in AUD	92	58
	2.814	3.819
Current maturities	(182)	(1.469)
Other long-term liabilities	2.632	2.350

Aggregated annual maturities are as follows:

In 2007 / 2006	182	1.469
In 2008 / 2007	1.187	1.201
In 2009 / 2008	289	749
In 2010 / 2009	162	104
Later	994	296
	2.814	3.819

29. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2006	23.542	(27.832)	(4.290)
Arising on acquisition of a subsidiary	215	(7.288)	(7.073)
Reclassification of Goodwill in Royce	35.862	0	35.862
Calculated tax for the period	3.681	1.538	5.219
Income tax payable for the period	0	603	603
Exchange differences	185	(225)	(40)
At 31 December 2006	63.485	(33.204)	30.281

30. Long-term liabilities - due within one year

	31.12.2006	31.12.2005
Loans from credit institutions	15.089	9.390
Obligations under finance leases	60	189
Other long-term liabilities	182	1.469
	15.331	11.048

31. Bridge loan - Gibaud Group (La Tour Finance)

In December 2006 the Company entered into a EUR 100 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 2006. 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.

All amounts in thousands of USD

32. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2006	1.396	4.083	5.479
Acquired on acquisition of subsidiary	0	1.044	1.044
Additional provision in the period	1.729	8.714	10.443
Exchange differences	0	17	17
Utilization of provision	(380)	(5.651)	(6.031)
At 31 December 2006	2.745	8.207	10.952

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.

33. 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)
	12.801
Goodwill	26.352
Total consideration	39.153
Satisfied by cash	39.153
	39.153
Net cash outflow arising on acquisition:	
Cash consideration	39.153
Bank balances and cash acquired	(203)
	38.950

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 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 18,184 thousand of revenue for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD

34. 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)
	108
Goodwill	680
Total consideration	788
Satisfied by cash	788
	788
Net cash outflow arising on acquisition:	
Cash consideration	788
Payable later	(100)
	688

Rigid Medical Technologies, Inc. contributed USD 669 thousand of revenue for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD

35. Acquisition of Gibaud Group (La Tour Finance)

On 21 December 2006 Ossur´s subsidiary Ossur Europe, BV acquired 100 per cent of the issued share capital of Gibaud Group (La Tour Finance) including Gibaud Pharma EURL, Gibaud SAS, Darby finances SAS, Tournier Bottu International SAS, Gibaud Espania SA and Gibaud Suisse SA for a cash consideration of USD 136.5 million. This transaction has been accounted for by the purchase method of accounting.

	USD Acquisition 21.12.2006
Net assets acquired:	
Operating fixed assets	10.062
Patents	335
Trademarks	15.088
Customer relationship	11.769
Other non-current assets	485
Inventories	11.850
Bank balances and cash	6.735
Long-term liabilities	(2.292)
Deferred tax liability	(7.073)
Current liabilities	(372)
	46.587
Goodwill	89.945
Total consideration	136.532
Satisfied by cash	(136.532)
	(136.532)
Net cash outflow arising on acquisition:	
Cash consideration	136.532
Bank balances and cash acquired	(6.755)
	129.777

The figures above are based on a preliminary opening balance sheet prepared for purchase accounting purposes and are therefore subject to change during Q1 2007.

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.

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.

Gibaud Group (La Tour Finance) contributed USD 993 thousand of revenue and generated loss of USD 3.549 thousand for the period between the date of acquisition and the balance sheet date. This includes the expensing of the restructuring cost amount of USD 5.453 thousand which has a negative effect net of tax amounting to USD 3,544 thousand in the consolidated income statement.

All amounts in thousands of USD 36

36. Operating lease arrangements

	2006	2005
Minimum lease payments under operating leases recognised in the Income Statement for the year	5.739	4.505

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

	31.12.2006	31.12.2005
In 2007 / 2006	5.104	4.760
In 2008 / 2007	4.964	4.098
In 2009 / 2008	3.509	2.939
In 2010 / 2009	3.099	2.203
In 2011 / 2010	2.715	1.826
Later	7.256	6.644
	26.647	22.470

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Thirty two 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 2007-2020.

37. Insurances

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

	Insurance value	Book value
Fixed assets and inventories	97.824	84.450

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 USD 42,170 thousand.

38. Litigation

On December 5, 2006, Ossur hf., parent company of Ossur Holdings, Inc. Disclosed to the Office of Inspector General of the U.S. Department of Defense that Ossur North America, Inc. and Royce Medical Company may have made some sales to the government that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review is being conducted, by third pary experts, of the sales and the circumstances surrounding the sales to determine the scope of the potential violations. The likely outcome of this matter remains uncertain.

All amounts in thousands of USD

Following a patent infringement challenge by Mölnlycke Health Care when Ossur began its marketing efforts of Gentleheal® wound care product, Ossur filed a Declaration of Non-Infringement legal action in May, 2004 against Mölnlycke in Stockholm, requesting the Court to determine that the Gentleheal product did not infringe Mölnlycke's European patent. Mölnlycke has denied Ossur's claim. The case is litigated in Swedish court, but the scope includes all seven jurisdictions where the patent is valid i.e. Sweden, Germany, Italy, Spain, France, Belgium and United Kingdom.
After the introduction of Gentleheal at the tradeshow in Atlanta, GA in April 2006, Mölnlycke filed a complaint against Ossur's distributor Medline and Ossur North America, alleging infringement of their US patent, belonging to the same patent family as the European patent that is the object of the Swedish litigation.

Both cases are in progress.

39. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 7 February 2007.