Ossur Second Quarter Report 2008

Press release from Ossur hf.

Reykjavik, 29 July 2008

Second Quarter 2008 Financial Highlights

- **Sales USD 92.9 million, up by 6% from Q2 2007**
- **EBITDA USD 19.0 million, up by 10%**
- **EBITDA margin 20.5%, compared to 19.7% in Q2 2007**
- **Net profit USD 3.9 million, compared to USD 1.5 million in Q2 2007**
- **Cash EPS diluted 2.42 US cents, up by 25%**
- **EPS diluted 0.93 US cents, up by 138%**

First Half 2008 Financial Highlights

- **Sales USD 182.6 million, up by 8% from H1 2007**
- **EBITDA USD 42.0 million, up by 52%**
- **EBITDA margin 23.0%, compared to 16.4% in H1 2007**
- **Net profit USD 10.6 million, compared to a net loss of USD 1.2 million in H1 2007**
- **Cash EPS diluted 5.39 US cents, up by 90%**
- **EPS diluted 2.51 US cents, compared to -0.32 in H1 2007**

Jon Sigurdsson, President & CEO, comments:

"The main focus in 2008 is on profitability and product rationalization. We have managed to increase the profitability of our business handsomely for the first six months, despite the fact that sales were slow in the second quarter. Product launches in the first half of the year have been unusually few, but there are some interesting products and product upgrades anticipated for the second half of the year. "

Putting the Ossur stamp on it!

The world's first intelligent prosthetic foot, the PROPRIO FOOT® from Ossur, is being featured on a postage stamp in the country where the company has its head office - Iceland.

The PROPRIO FOOT stamp is another sign of recognition for this cutting edge product, the third to feature Bionic Technology by Ossur, the stamp reflects the highly innovative nature of the device.

Ossur - Investor meeting Tuesday 29 July – live webcast at 12:00 GMT / 14:00 CET / 8:00 EST

Today, Tuesday 29 July 2008 Jon Sigurdsson, President and CEO, and Hjorleifur Palsson, CFO, will host a meeting presenting and discussing the results of the second quarter for investors, analysts and shareholders. The meeting will take place at Grand Hotel Reykjavik and will be conducted in English.

There will be live broadcast from the meeting on the Ossur website: www.ossur.com/investors

To call in and participate in the meeting, please call the following telephone numbers:
Telephone number for Europe: +44 (0)20 3043 2436
Telephone number for the United States: +1 866 458 40 87
Local Icelandic number: 800 8660

Presentation material will be available on the Company's website www.ossur.com and the News System of the Iceland Stock Exchange/ Nasdaq OMX: www.omxnordicexchange.com/newsandstatistics/companynotices and on www.huginonline.com

Management changes at Ossur Americas

In June it was announced that Mahesh Mansukhani has joined the company as President of Ossur Americas. Mr. Mansukhani succeeds Eythor Bender who will remain in a consultancy role for the Company. Mr. Mansukhani has a Yale University MBA. He has more than 12 years of experience in leadership roles within multiple sectors, including DuPont, where he led a $1.1 billion global business unit.

Market Making Agreement

Ossur signed a market making agreement with Saga Capital Investment Bank taking effect on 23 April 2008. Ossur has a market making agreement with Kaupthing Bank since 2005.

Operating results for the second quarter of 2008

The operating results for the second quarter of 2008 are presented below.

Income Statements (USD '000)	Q2 2008	% of sales	Q2 2007	% of sales	Change
Net sales	92,881	100.0%	88,037	100.0%	5.5%
Cost of goods sold	(38,634)	-41.6%	(37,141)	-42.2%	4.0%
Gross profit	**54,247**	**58.4%**	**50,896**	**57.8%**	**6.6%**
Other income	1,264	1.4%	197	0.2%	541.6%
Sales & marketing expenses	(23,388)	-25.2%	(21,053)	-23.9%	11.1%
Research & development expenses	(5,379)	-5.8%	(4,541)	-5.2%	18.5%
General & administrative expenses	(14,000)	-15.1%	(14,124)	-16.0%	-0.9%
Profit from operations	**12,744**	**13.7%**	**11,376**	**12.9%**	**12.0%**
Financial income	105	0.1%	292	0.3%	-64.0%
Financial expenses	(5,200)	8.2%	(9,818)	-11.2%	-47.0%
Profit before tax	**7,649**	**8.2%**	**1,850**	**2.1%**	**313.5%**
Income tax	(3,705)	-4.0%	(367)	-0.4%	909.5%
Net profit for the period	**3,944**	**4.2%**	**1,483**	**1.7%**	**165.9%**
EBITDA	**19,040**	**20.5%**	**17,353**	**19.7%**	**9.7%**

Income Statements for the second quarter 2008

The total sales for the second quarter amounted to 92.9 million, representing a 6% growth, compared to the second quarter of 2007. Exchange rate trends had a positive impact on sales, which declined by 1%, measured in local currency. One of the main focuses in 2008 has been on profitability and despite slow sales in the second quarter, the profitability is improving.

Gibaud has been fully aligned to IFRS and Ossur's accounting methods resulting in expenses recorded as G&A in 2007 are now classified as cost of goods sold and sales and marketing expenses. Comparison numbers have been adjusted accordingly.

The gross profit was USD 54.2 million compared to USD 50.9 million in the second quarter of 2007, representing an increase of 7%. The gross profit margin improved by 0.6 percentage points.

Other income amounted to USD 1.3 million. One-time other income includes a USD 1 million milestone payment related to the divestment of the wound care product line earlier this year. Effect of profit from operations is neutral, due to unusual consulting and severance expenses in the G&A expense line.

Operating expenses as a ratio to sales was 46%, compared to 45% in the second quarter of 2007.

Profit from operations amounted to USD 12.7 million or 14% of sales, compared to USD 11.4 million and 13% of sales in the second quarter of 2007, representing an increase of 12%.

Amortization of intangible assets relating to acquisitions amounted to USD 4.1 million, compared to USD 3.8 million in the second quarter of 2007. The amortization following acquisitions in the past is in accordance with accounting standards, affecting the P/L statement although the underlying intangible assets are not decreasing in value. The amortization of intangible assets will continue at the same level until at the end of 2010 and then drop to a lower level until at the end of 2016. Further acquisitions will affect the amortization level.

Net interest expenses in the second quarter amounted to USD 4.6 million, compared to USD 6.3 million for the second quarter of 2007, decreasing by 27% as a result of decreased leverage. Ossur has entered into interest rate swap agreements, fixing the rates of the Company's long term debt at a weighted average of 5.99% per annum interest rate. Exchange rate difference in the quarter had insignificant impact on the Company's long term debt in Euros. Total exchange rate losses during the quarter amounted to USD 472 thousand, compared to USD 3.3 million for the second quarter of 2007.

Income tax was USD 3.7 million, corresponding to a 48% effective tax rate, compared to 20% in the second quarter of 2007. The increase is largely due to decreased tax rate in Iceland and in Germany which causes write-down of accumulated tax benefits.

Net profit amounted to USD 3.9 million, compared to USD 1.5 million in the second quarter of 2007.

EBITDA increased by 10% from the second quarter of 2007 and amounted to USD 19 million and 20.5% of sales, compared to USD 17.4 million and 19.7% of sales.

Product groups

The breakdown of sales between main product groups in the second quarter of 2008, was as follows:

USD '000	Q2 2008	% of sales	Growth USD	Growth LCY
Bracing & supports	47,473	51%	2%	-4%
Prosthetics	38,729	42%	10%	4%
Compression therapy	5,264	6%	23%	6%
Other	1,415	1%	-28%	-35%
Total	**92,881**	**100%**	**6%**	**-1%**

Sales growth in bracing and supports was 2%. Sales of bracing and supports in the Americas has been below targets, offsetting the overall growth of the segment. The bracing and supports segment in traditional Europe is growing in line with the market. A number of new products and product upgrades in this segment are planned for the second half of the year.

Sales growth in prosthetics was 10%. Prosthetics and the technological developments in the field have been in the spotlight of the media in the past months. Driving this attention has been Oscar Pistorius, the double amputee runner from South Africa, because of his battle to be allowed to compete for the Bejing 2008 Olympics on his Ossur Cheetah feet. A negative ruling from the IAAF was reversed by the Court of Arbitration for Sports (CAS) in May, allowing him to compete in IAAF-sanctioned events. Ossur celebrates with Oscar this step in changing the way amputee athletes are perceived.

Sales growth of compression therapy products in the second quarter was 23%, compared to the second quarter of 2007. Sales of compression therapy products in the second quarter of 2007 were unusually low. Sales focus at Gibaud shifted between segments in 2007, resulting in uneven performance. Focus on segments within Gibaud is now more balanced, resulting in less fluctuations going forward.

Geographical markets

The distribution of sales, according to market regions, in the second quarter of 2008 was as follows:

USD '000	Q2 2008	% of sales	Growth USD	Growth LCY
Americas	39,705	43%	-6%	-7%
EMEA	49,844	54%	16%	3%
Asia	3,332	3%	24%	21%
Total	**92,881**	**100%**	**6%**	**-1%**

Americas

Sales in Ossur Americas declined by 6%. Sales in this market continue to be challenging. A distribution agreement has been signed with MioMed, distributing Ossur's bracing and support products in Illinois and Indiana. Distribution agreements with MioMed and Team Makena are expected to have a positive effect on the B&S sales in the Americas.

Sales in the Americas accounted for 43% of sales, compared to 48% in the second quarter last year. The change is due to slow sales in the Americas and exchange rate developments.

EMEA

Growth in EMEA was 16% and 3% measured in local currency. Prosthetic sales in traditional Europe have been growing healthily on average for the past six quarters. Overall growth of EMEA is offset by flat growth at Gibaud. Sales of Comfort products in France are not in line with the core business strategy of Ossur and sales efforts are reduced accordingly, effecting the overall growth at Gibaud. In 2008 EMEA has increased focus on direct sales in the bracing and support segment instead of distributors. This has negative effect on sales growth, but increases the profitability. These effects the overall sales growth of EMEA measured in local currency, decreasing it by 2 percentage points.

Sales in EMEA accounted for 54% of total sales, compared to 49% in the same period last year.

In May Ossur EMEA participated in Europe's leading orthopaedic tradeshow in Leipzig, Germany. Ossur successfully introduced the Company as a major player in both prosthetics and bracing and supports, using the slogan "Now also your partner in bracing & supports". Over 18,100 visitors from 85 countries attended the trade show.

Asia

Growth in Asia is excellent, 24% and 21% measured in local currency. Sales of both prosthetics and bracing and support products have been growing well, especially in Australia.

Sales in Asia accounted for 3% of sales, same as in the second quarter of 2007.

Balance Sheets

Consolidated Balance Sheets (USD '000)	30 June 2008	30 December 2007	Change
Fixed assets	503,888	503,564	0%
Current assets	142,036	132,257	7%
Total assets	**645,924**	**635,821**	**2%**
Stockholders' equity	268,931	250,282	7%
Long-term liabilities	244,362	239,361	2%
Current liabilities	132,631	146,178	-9%
Total equity and liabilities	**645,924**	**635,821**	**2%**
Net Debt / EBITDA LTM	3.5	4.4	
Net Debt / EBITDA LTM adj.*	4.3	4.8	
Equity ratio	42%	39%	

*** Adjusted for one-time income and expenses.**

Total assets have increased by 2% from the end of 2007. The equity ratio at the end of the second quarter was 42% compared to 39% at the end of 2007. Net interest bearing dept over EBITDA was 3.5x at the end of the quarter (4.3x EBITDA adjusted). Ossur's financial strength is healthy and in line with the Company's policy.

The remainder of the Bridge loan facility entered into, in relation to the Gibaud acquisition, has been extended to 1 January 2009. Ossur is very cash generative, giving the Company the ability to decrease debt quite fast.

Cash Flow

Cash Flow (USD ‘000)	Q2 2008	% of Sales	Q2 2007	% of sales
Working capital provided by operating activities	13,352	14%	9,512	11%
Net cash provided by operating activities	7,376	8%	11,284	13%

Capital investments amounted to USD 2.2 million or 2.4% of sales, compared to USD 1.7 million or 1.9% of sales in the second quarter of 2007.

Earnings per share

Earnings per share	Q2 2008	Q2 2007	Change
EPS diluted (US cents)	0.93	0.39	138%
Cash EPS diluted (US cents)	2.42	1.94	25%

Five quarter comparison

Five Quarter Comparison	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Net sales	92,881	89,754	84,870	82,322	88,037
Gross profit	54,247	53,177	46,227	47,355	50,869
Profit from operations	12,744	17,041	16,157	8,125	11,376
Financial income / (expenses)	(5,095)	(9,043)	(8,445)	(5,840)	(9,526)
Profit (loss) before tax	7,649	7,998	7,712	2,285	1,850
Net profit	3,944	6,684	6,648	2,155	1,483
EBITDA	19,040	22,950	22,732	14,068	17,353
EBITDA adj*	19,040	17,449	13,474	14,068	17,353
Gross profit margin	58%	59%	54%	58%	58%
EBITDA margin	21%	26%	27%	17%	20%
EBITDA adj.* margin	21%	19%	16%	17%	20%
Stockholders’ equity	268,931	259,336	250,282	171,089	166,347
Total assets	645,924	651,358	635,821	625,068	634,940
Current ratio	1.1	0.6	0.9	0.6	0.6
Equity ratio	42%	40%	39%	27%	26%
Net debt / EBITDA LTM	3.5	3.6	4.4	7.8	8.1
Net debt / EBITDA LTM adj.*	4.3	4.4	4.8	6.8	7.1
Working capital from operating activities	13,352	19,505	31,180	-2,205	9,512
Net cash provided by operating activities	7,376	14,278	19,982	12,324	11,284
Earnings per share (US cents)	0.93	1.58	1.62	0.56	0.39
Cash earnings per share (US cents)	2.42	2.98	3.22	2.1	1.94
Price per share at period end (ISK)	93.4	92.7	98.5	101.5	106.0
Market value at period end (USD million)	498	511	731	630	656

* Adjusted for one-time income and expenses.

Income Statements for the first half of 2008

Income Statements (USD '000)	YTD 2008	% of sales	YTD 2007	% of sales	Change
Net sales	182,635	100.0%	168,417	100.0%	8.4%
Cost of goods sold	(75,211)	-41.2%	(73,145)	-43.4%	2.9%
Gross profit	**107,424**	**58.8%**	**95,272**	**56.6%**	**12.8%**
Other income	7,003	3.8%	517	0.3%	1254.5%
Sales & marketing expenses	(46,887)	-25.7%	(43,286)	-25.7%	8.3%
Research & development expenses	(10,803)	-5.9%	(9,593)	-5.7%	12.6%
General & administrative expenses	(26,952)	-14.8%	(27,476)	-16.3%	-1.9%
Profit from operations	**29,785**	**16.3%**	**15,434**	**9.2%**	**93.0%**
Financial income	198	0.1%	581	0.3%	-65.9%
Financial expenses	(14,336)	-7.8%	(17,959)	-10.7%	-20.2%
Profit / (loss) before tax	**15,647**	**8.6%**	**(1,944)**	**-1.2%**	**n/a**
Income tax	(5,019)	-2.7%	721	0.4%	n/a
Net profit / (loss) for the period	**10,628**	**5.8%**	**(1,223)**	**-0.7%**	**n/a**
		0.0%			
EBITDA	**41,988**	**23.0%**	**27,593**	**16.4%**	**52.2%**
EBITDA adjusted*	**36,489**	**20.0%**	**28,881**	**17.1%**	**26.5%**

* Adjusted for one-time income and expenses.

Sales for the first six months of 2008 amounted to USD 182.6 million, representing an increase of 8%, compared to the first half of 2007. Sales growth measured in local currency was 2%. Despite slow sales in the second quarter, the profitability is improving. Exchange rate trends had a positive impact.

Sales in the Americas have been slow in 2008 and decreased by 1% in the first six months of the year and 2% measured in local currency. Sales in EMEA increased by 17% and 5%, measured in local currency. Traditional Europe is growing healthily, but overall growth of EMEA is affected by lower growth at Gibaud. Asia increased sales by 26% and 22%, measured in local currency.

The gross profit was USD 107.4 million, compared to USD 95.3 million in the first half of 2007, representing an increase of 13%.

Other income amounted to USD 7.0 million. One-time income includes USD 6.5 million sales gain, realized through the divestment of the wound care product line.

Operational expenses as a ratio to sales were 46%, compared to 48% in the same period of 2007.

Profit from operations amounted to USD 29.8 million and 16% as a ratio to sales, compared to USD 15.4 and 9% in the first half of 2007, representing an increase of 93%.

Net financial expenses for the first half amounted to USD 14.1 million, compared to USD 17.4 million for the first half of 2007, decreasing by 19% as a result of decreased leverage and exchange losses during the period.

In the first quarter of 2008 the strengthening of the Euro against the US dollar, resulted in a significant negative exchange rate loss, mostly related to the Company's long term debt in Euros. In the second quarter the exchange rate difference had insignificant impact on the Company's long term debt in Euros.

Net profit for the period amounted to USD 10.6 million, compared to a loss of USD 1.2 million, in the first half of 2007.

EBITDA amounted to USD 42.0 million and 23% of sales, compared to USD 27.6 million and 16.4% of sales, in the first six months of 2007. EBITDA adjusted for one-time income and expenses amounted to USD 36.5 million and 20% of sales, compared to USD 28.9 million and 17.1% of sales, for the first half of 2007. Adjustments for one-time income includes USD 5.5 million, due to the divestment of the wound care product line in the first quarter of 2008 and one-time expenses in 2007 was due to USD 1.2 million unusual litigation expenses.

Operating prospects

Ossur reiterates its full year guidance, from the beginning of the year for sales in 2008, to be around USD 360-365 million and EBITDA to be USD 67-70 million, excluding the sales gain realized from the divestment of the wound care product line.

Approval of Financial Statements

The Ossur hf. Consolidated Financial Statements for the first six months of 2008, were approved at a meeting of the Board of Directors on 28 July 2008. The statements, prepared in compliance with International Financial Reporting Standards (IFRS), have been reviewed and endorsed by the Company's auditors without comments.

The estimated dates of publication of financial reports in 2008 are as follows:

Third quarter 2008 results	**28 October 2008**
Fourth quarter and annual 2008 results	**5 February 2009**
2008 Annual General Meeting	**20 February 2009**

Further information

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About Ossur
Ossur (OMX: OSSR) is a global leader in non-invasive orthopaedics that help people live a life without limitations. Its business is focused on improving people's mobility through the delivery of innovative technologies within the fields of braces, supports, prosthetic limbs and compression therapies. A recognized "Technology Pioneer," Ossur invests significantly in research and product development; its award-winning designs ensuring a consistently strong position in the market. Successful patient and clinical outcomes are further empowered via Ossur's educational programs and business solutions. Headquartered in Iceland, Ossur has major operations in the Americas, Europe and Asia, with additional distributors worldwide.

Forward-Looking Statements
This press release includes "forward-looking statements" which involve risks and uncertainties that could cause actual results to differ materially from results expressed or implied by these statements. Ossur hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement.