

# Ossur hf.

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Consolidated Financial Statements

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September 30<sup>th</sup> 2007

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

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Consolidated Financial Statements

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September 30<sup>th</sup> 2007

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# Statement by the Board of Directors and President and CEO

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It is the opinion of the Board of Directors and the President and CEO of Ossur hf., that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 September 2007, the operating results for the period 1 January to 30 September 2007, and financial developments during that period. Ossur Financial Statements are prepared in accordance with IFRS.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur hf. for the period from 1 January to 30 September 2007 with their signatures.

Reykjavik, 29 October 2007

## Board of Directors

Niels Jacobsen  
Chairman of the Board

Ossur Kristinsson

Kristjan T. Ragnarsson

Thordur Magnusson

Sigurbjorn Thorkelsson

## President and CEO

Jon Sigurdsson

# Financial Ratios

## Consolidated statement

		YTD 2007	YTD 2006	2006	2005	2004	2003
<b>Growth</b>							
Net sales	USD '000	250.739	188.289	252.133	160.729	124.399	94.467
EBITDA	USD '000	41.661	33.877	39.493	25.832	25.045	9.428
Profit from operations	USD '000	23.559	19.299	19.743	16.525	20.374	6.112
Net income	USD '000	932	8.067	4.360	11.688	15.227	4.661
Total assets	USD '000	625.068	453.597	612.752	407.986	108.915	102.126
<b>Operational performance</b>							
Cash provided by operating activities	USD '000	25.719	7.000	15.988	15.481	16.600	10.383
- as ratio to total debt <sup>(1)</sup>	%	9	3	5	10	30	23
- as ratio to net result		28	0,9	3,7	1,3	1,1	2,2
Working capital from operating activities	USD '000	12.811	22.791	24.663	18.954	23.095	8.774
- as ratio to long-term debt and stockh. Equity <sup>(1)</sup>	%	4	8	6	8	27	13
<b>Liquidity and solvency</b>							
Quick ratio		0,4	1,0	0,4	1,4	1,4	1,2
Current ratio		0,6	1,5	0,6	2,1	2,2	1,8
Equity ratio	%	27	36	26	37	50	43
<b>Asset utilization and efficiency</b>							
Total asset turnover <sup>(1)</sup>		0,6	0,6	0,5	0,6	1,2	1,1
Grace period granted <sup>(1)</sup>	Days	48	43	46	44	44	47
<b>Profitability</b>							
Return on capital <sup>(1)</sup>	%	3	7	5	10	20	9
Return on common equity <sup>(1)</sup>	%	(2)	8	3	15	31	11
Operating profit as ratio to net sales	%	9	10	8	10	16	6
Net income before taxes as ratio to net sales	%	0	2	0	8	15	6
Net income for the period as ratio to net sales	%	0	4	2	7	12	5
<b>Market</b>							
Market value of equity	USD '000	629.880	692.102	605.572	695.125	395.514	201.237
Price/earnings ratio, (P/E) <sup>(1)</sup>		N.A	62,0	138,9	59,5	26,0	43,2
Price/book ratio		3,7	4,2	3,7	4,5	7,2	4,6
Number of shares	Millions	385	385	385	385	318	328
Earnings per Share, (EPS) <sup>(1)</sup>	US Cent	(0,72)	3,02	1,13	3,53	4,80	1,45
Diluted Earnings per Share, (Diluted EPS) <sup>(1)</sup>	US Cent	(0,72)	3,02	1,13	3,52	4,80	1,44
Cash EPS <sup>(1)</sup>	US Cent	5,33	8,04	6,27	6,34	6,28	2,48
Diluted Cash EPS <sup>(1)</sup>	US Cent	5,33	8,04	6,27	6,33	6,27	2,47

## Notes

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

# Report on Review of Financial Information

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To the Board of Directors and shareholders of Ossur hf.

## Introduction

We have reviewed the accompanying balance sheet of Ossur hf. as of September 30, 2007 and the related statements of income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this financial information in accordance with IFRS (International Financial Reporting Standards). Our responsibility is to express a conclusion on this financial information based on our review.

## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not give a true and fair view of the financial position of the entity as at September 30, 2007, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IFRS, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards.

Reykjavik, 29 October 2007

**Deloitte hf.**

Sigurður Pall Hauksson  
State authorized public accountant

Thorvardur Gunnarsson  
State authorized public accountant

# Consolidated Income Statements

## for the periods 1.1. - 30.9.2007 and 1.1. - 30.9.2006

	Notes	YTD 2007	YTD 2006	2007 Q3	2006 Q3
<b>Net sales</b>	4	250.739	188.289	82.322	62.755
Cost of goods sold .....		<u>(102.870)</u>	<u>(75.811)</u>	<u>(33.561)</u>	<u>(24.946)</u>
<b>Gross profit</b>		147.869	112.478	48.761	37.809
Other income .....		828	244	311	121
Sales and marketing expenses .....		(63.961)	(50.862)	(20.722)	(17.530)
Research and development expenses .....		(14.917)	(13.181)	(5.324)	(4.254)
General and administrative expenses .....		(46.260)	(26.380)	(14.901)	(9.085)
Restructuring expenses .....		<u>0</u>	<u>(3.000)</u>	<u>0</u>	<u>0</u>
<b>Profit from operations</b>		23.559	19.299	8.125	7.061
Financial income /(expenses) .....	7	<u>(23.218)</u>	<u>(14.795)</u>	<u>(5.840)</u>	<u>(3.887)</u>
<b>Profit before tax</b>		341	4.504	2.285	3.174
Income tax .....	8	<u>591</u>	<u>3.563</u>	<u>(130)</u>	<u>2.203</u>
<b>Net Profit</b>		<u><u>932</u></u>	<u><u>8.067</u></u>	<u><u>2.155</u></u>	<u><u>5.377</u></u>
<b>Earnings per Share</b>	9				
Basic Earnings per Share .....		<u>0,24</u>	<u>2,10</u>	<u>0,56</u>	<u>1,40</u>
Diluted Earnings per Share .....		<u>0,24</u>	<u>2,10</u>	<u>0,56</u>	<u>1,40</u>

# Consolidated Balance Sheets

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## Assets

	Notes	30.9.2007	31.12.2006
<b>Non-current assets</b>			
Property, plant and equipment .....	11	35.730	37.074
Goodwill .....	12	336.328	316.593
Other intangible assets .....	13	61.368	69.959
Financial assets .....	15	2.563	2.208
Deferred tax asset .....	24	55.762	63.485
		<u>491.751</u>	<u>489.319</u>
<b>Current assets</b>			
Inventories .....	16	53.293	47.376
Accounts receivables .....	17	57.618	49.147
Other receivables .....	17	11.599	14.732
Bank balances and cash .....	17	10.807	12.178
		<u>133.317</u>	<u>123.433</u>
<b>Total assets</b>		<u><u>625.068</u></u>	<u><u>612.752</u></u>

## 30 September 2007 and 31 December 2006

### Equity and liabilities

	Notes	30.9.2007	31.12.2006
<b>Equity</b>			
Issued capital .....	18	107.553	107.553
Reserves .....	19	17.508	8.990
Accumulated profits .....	20	46.029	45.096
<b>Total equity</b>		<u>171.089</u>	<u>161.639</u>
<b>Long-term liabilities</b>			
Loans from credit institutions .....	22	208.412	198.615
Other long-term liabilities .....	23	223	2.719
Provisions .....	27	1.753	0
Deferred tax liabilities .....	24	23.273	33.204
		<u>233.661</u>	<u>234.538</u>
<b>Current liabilities</b>			
Long-term liabilities - due within one year .....	25	16.332	15.331
Deferred tax liability - due within one year .....	24	627	0
Accounts payable .....		13.629	22.132
Bank loans .....	26	152.952	148.484
Tax liabilities .....		429	2.301
Other current liabilities .....		27.861	17.375
Provisions .....	27	8.488	10.952
		<u>220.318</u>	<u>216.575</u>
<b>Total equity and liabilities</b>		<u>625.068</u>	<u>612.752</u>



# Consolidated Statements of Cash Flows

## for the periods 1.1. - 30.9.2007 and 1.1. - 30.9.2006

	Notes	YTD 2007	YTD 2006
<b>Cash flows from operating activities</b>			
Profit from operations .....		23.559	19.299
Depreciation and amortization .....	11, 13	18.102	14.577
Gain on disposal of assets .....		5	(5)
Changes in operating assets and liabilities .....		(4.516)	(11.167)
<b>Cash generated by operations</b>		<u>37.150</u>	<u>22.704</u>
Interest received .....		5.504	85
Interest paid .....		(16.211)	(11.171)
Taxes paid .....		(723)	(4.618)
<b>Net cash provided by operating activities</b>		<u>25.719</u>	<u>7.000</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets .....	11, 13	(4.707)	(6.862)
Proceeds from sale of fixed assets .....		224	144
Acquisition of subsidiaries .....		(11.809)	(39.638)
Changes in financial assets .....		(192)	85
		<u>(16.484)</u>	<u>(46.271)</u>
<b>Cash flows from financing activities</b>			
Short-term loans .....		(12.684)	12.825
Borrowing of long-term liabilities .....		15.557	19.263
Repayments of long-term liabilities .....		(14.275)	(6.525)
Purchases of treasury stock .....		0	(546)
Exercised share options .....		0	880
		<u>(11.402)</u>	<u>25.897</u>
<b>Net change in cash and cash equivalents .....</b>		<u>(2.167)</u>	<u>(13.374)</u>
<b>Effects of foreign exchange adjustments .....</b>		795	129
<b>Cash and cash equivalents at beginning of year .....</b>		<u>12.178</u>	<u>20.914</u>
<b>Cash and cash equivalents at end of period .....</b>		<u>10.807</u>	<u>7.669</u>
Additional information regarding cash flow .....	10		

## Consolidated Statement of changes in Equity for the period ended 30 September 2007

	Share capital	Share Premium	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Accumulated profits	Total equity
Balance at 1 January 2006.....	4.160	103.119	1.043	0	0	3.771	40.736	152.829
Translation difference of shares in foreign companies.....						4.176		
Net gains / losses not recognised in the income statement.....	0	0	0	0	0	4.176	0	4.176
Purchases of treasury stock.....	(5)	(707)						(712)
Exercised share options.....	15	971						986
Net profit for the year.....							4.360	4.360
Balance at 31 December 2006.....	4.170	103.383	1.043	0	0	7.947	45.096	161.639
Change in fair value of hedging instrument.....					(6.057)			(6.057)
Translation difference of shares in foreign companies.....						14.335		14.335
Net gains / losses not recognised in the income statement.....	0	0	0	0	(6.057)	14.335	0	8.278
Change in share option reserve.....				240				
Net profit for the period.....							932	932
Balance at 30 September 2007.....	4.170	103.383	1.043	240	(6.057)	22.282	46.029	171.089

# Notes to the Financial Statements

## 1. Operations

Ossur hf. is a global orthopaedics company, specializing in the development, manufacture and sales of prosthetics, braces and supports and compression therapy products. The principal market areas of the Company are Americas, Europe, Middle East and Africa (EMEA) and Asia, which are served by companies in the United States, Canada, Sweden, the Netherlands, UK, France, Australia and China in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in eleven places during the period: at Ossur North America, Inc., in Aliso Viejo, Foothill Ranch and Camarillo in California, Thorofare and Moorestown in New Jersey, and in Albion, Michigan, at Ossur Canada, in Canada, Ossur UK in Manchester, Gibaud Group (La Tour Finance) in St. Etienne and Trevoux in France and at Ossur hf. in Iceland. Part of the production is outsourced to China, Thailand and Taiwan.

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

## 2. Significant accounting policies

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

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

## 3. Quarterly statements

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Net sales .....	82.322	88.037	80.380	63.844	62.755
Cost of goods sold .....	(33.561)	(34.916)	(34.393)	(26.945)	(24.946)
<b>Gross profit</b> .....	<b>48.761</b>	<b>53.121</b>	<b>45.987</b>	<b>36.899</b>	<b>37.809</b>
Other income .....	311	197	320	286	121
Sales and marketing exp. ....	(20.722)	(21.261)	(21.978)	(16.758)	(17.530)
Research and develop. exp. ....	(5.324)	(4.599)	(4.994)	(4.744)	(4.254)
General and admin. exp. ....	(14.901)	(16.082)	(15.277)	(9.785)	(9.085)
Restructuring expenses .....	0	0	0	(5.453)	0
<b>Profit from operations</b> .....	<b>8.125</b>	<b>11.376</b>	<b>4.058</b>	<b>444</b>	<b>7.061</b>
Financial income/(expenses) .....	(5.840)	(9.526)	(7.852)	(5.807)	(3.887)
<b>Profit (loss) before tax</b> .....	<b>2.285</b>	<b>1.850</b>	<b>(3.794)</b>	<b>(5.363)</b>	<b>3.174</b>
Income tax .....	(130)	(367)	1.088	1.656	2.203
<b>Net (loss) profit</b> .....	<b>2.155</b>	<b>1.483</b>	<b>(2.706)</b>	<b>(3.707)</b>	<b>5.377</b>

# Notes to the Financial Statements

## 4. Net sales

Net sales are specified as follows according to markets:

	<u>YTD 2007</u>	<u>YTD 2006</u>
Americas.....	123.140	117.322
EMEA.....	119.689	63.687
Asia.....	7.910	7.280
	<u>250.739</u>	<u>188.289</u>

## 5. Geographical segments

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

<b>2007</b>	<u>Americas</u> <u>YTD 2007</u>	<u>EMEA</u> <u>YTD 2007</u>	<u>Asia</u> <u>YTD 2007</u>	<u>Eliminations</u> <u>YTD 2007</u>	<u>Consolidated</u> <u>YTD 2007</u>
<b>Revenue</b>					
External sales.....	123.140	119.689	7.910	0	250.739
Inter-segment sales.....	13.264	49.068	1	(62.333)	0
Total revenue.....	<u>136.404</u>	<u>168.757</u>	<u>7.911</u>	<u>(62.333)</u>	<u>250.739</u>

Inter-segment sales are calculated from external sales prices.

### Result

Segment result.....	<u>10.634</u>	<u>11.025</u>	<u>190</u>	<u>1.710</u>	23.559
Financial income/(expenses).....					<u>(23.218)</u>
Profit (loss) before tax.....					341
Income tax.....					<u>591</u>
Net loss.....					<u>932</u>

### Other information

Capital additions.....	1.689	2.828	190	0	4.707
Depreciation and amortization.....	12.436	5.646	20	0	18.102

### Balance sheet

	<u>30.9.2007</u>	<u>30.9.2007</u>	<u>30.9.2007</u>	<u>30.9.2007</u>	<u>30.9.2007</u>
<b>Assets</b>					
Segment assets.....	396.897	799.661	3.888	(575.378)	<u>625.068</u>
<b>Liabilities</b>					
Segment liabilities.....	287.847	585.841	2.675	(422.384)	<u>453.979</u>

# Notes to the Financial Statements

2006	Americas YTD 2006	EMEA YTD 2006	Asia YTD 2006	Eliminations YTD 2006	Consolidated YTD 2006
<b>Revenue</b>					
External sales.....	117.322	63.687	7.280	0	188.289
Inter-segment sales.....	11.946	51.024	0	(62.970)	0
Total revenue.....	<u>129.268</u>	<u>114.711</u>	<u>7.280</u>	<u>(62.970)</u>	<u>188.289</u>
<b>Result</b>					
Segment result.....	<u>(1.466)</u>	<u>21.863</u>	<u>1.058</u>	<u>(2.156)</u>	19.299
Financial income/(expenses).....					<u>(14.795)</u>
Profit before tax.....					4.504
Income tax.....					<u>3.563</u>
Net profit.....					<u>8.067</u>
<b>Other information</b>					
Capital additions.....	3.024	3.818	20	0	6.862
Depreciation and amortization.....	11.540	3.033	4	0	14.577
<b>Balance sheet</b>					
	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>	<u>31.12.2006</u>
<b>Assets</b>					
Segment assets.....	386.960	740.722	3.924	(518.854)	<u>612.752</u>
<b>Liabilities</b>					
Segment liabilities.....	308.242	546.089	3.197	(406.415)	<u>451.113</u>

## 6. Business segments

Current business segments for the Company are Prosthetics, Bracing and Support, Compression Therapy and other products. It is not possible to disclose assets according to business segments due to shared usage of assets.

Net sales are specified as follows according to product lines:

	YTD 2007	YTD 2006
Prosthetics.....	101.101	89.459
Bracing and support.....	134.225	97.935
Compression Therapy (Phlebology).....	13.186	0
Other products.....	2.227	894
	<u>250.739</u>	<u>188.289</u>

# Notes to the Financial Statements

## 7. Financial income / (expenses)

Interest income and (expenses) are specified as follows:

	<u>YTD 2007</u>	<u>YTD 2006</u>
<b>Income from investments:</b>		
Bank deposit.....	257	42
Other loans and receivables.....	15	19
Available for sale investments.....	65	0
Profit from trading investments.....	305	0
Other interest income.....	4	43
	<u>646</u>	<u>104</u>
<b>Finance costs:</b>		
Interest on bank loans.....	(19.021)	(10.983)
Interest on obligations under finance leases.....	0	(11)
Other interest expenses.....	(359)	(163)
	<u>(19.380)</u>	<u>(11.157)</u>
Fair value changes of derivatives.....	4.930	0
Exchange rate differences.....	(9.414)	(3.742)
	<u>(23.218)</u>	<u>(14.795)</u>

The Company holds derivative financial instruments to hedge part of its foreign currency and interest rate risk exposures. The principal derivative instruments used are foreign currency swaps and interest rate swaps.

## 8. Income tax

Income tax are specified as follows:

	<u>YTD 2007</u>	<u>YTD 2006</u>
Current tax expenses.....	(1.275)	(377)
Deferred tax revenue.....	1.866	4.065
Exchange rate difference.....	0	(125)
	<u>591</u>	<u>3.563</u>

Reconciliation of effective tax rate:

	<u>YTD 2007</u>		<u>YTD 2006</u>	
	Amount	%	Amount	%
Result before taxes.....	<u>341</u>		<u>4.504</u>	
Income tax revenue calculated at 18%.....	(61)	18%	(811)	18%
Effect of different tax rates of other jurisdictions.....	5.721	(1678%)	4.068	(90%)
Effect of nondeductable expenses/revenues.....	(3.883)	1139%	(73)	2%
Effect of change in tax rate.....	(190)	56%	(56)	1%
Effect of previously recognised tax loss reversed.....	(2.087)	612%	0	0%
Effect on fair value changes of derivatives.....	1.091	(320%)	435	(10%)
	<u>591</u>	<u>(173%)</u>	<u>3.563</u>	<u>(79%)</u>

# Notes to the Financial Statements

## 9. Earnings per share

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

	YTD 2007	YTD 2006
Net profit.....	932	8.067
Total average number of shares outstanding during the period (in thousands).....	384.922	384.262
Total average number of shares including potential shares (in thousands).....	384.969	384.296
Basic Earnings per Share (US cent) .....	0,24	2,10
Diluted Earnings per Share (US cent) .....	0,24	2,10
Cash Earnings per Share .....	4,94	5,89
Diluted Cash Earnings per Share .....	4,94	5,89
	Q3 2007	Q3 2006
Net profit for Q3.....	2.155	5.377
Total average number of shares outstanding during Q3 (in thousands).....	384.922	384.923
Total average number of shares including potential shares (in thousands).....	384.969	384.959
Basic Earnings per Share (US cent) .....	0,56	1,40
Diluted Earnings per Share (US cent) .....	0,56	1,40
Cash Earnings per Share .....	2,10	2,72
Diluted Cash Earnings per Share .....	2,10	2,72

## 10. Additional information regarding cash flow

	YTD 2007	YTD 2006
Net Profit for the period .....	932	8.067
Items not affecting cash .....	11.879	14.724
Working capital provided by operating activities .....	12.811	22.791
Increase in inventories .....	(3.677)	(5.729)
Increase in receivable .....	(827)	(6.131)
Increase / (decrease) in payables .....	17.412	(3.931)
Net cash provided by operating activities .....	25.719	7.000

# Notes to the Financial Statements

## 11. Property, plant and equipment

Operating fixed assets are specified as follows:

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
<b>Cost</b>				
At 1 January 2007.....	15.685	30.793	23.781	70.259
Reclassification.....	(12)	(163)	175	0
Additions.....	439	1.449	2.665	4.553
Acquired on acquisition of subsidiary.....	0	90	0	90
Exchange differences.....	985	1.370	593	2.948
Eliminated on disposal.....	0	(491)	(253)	(744)
Fully depreciated assets.....	0	(256)	(51)	(307)
At 30 September 2007.....	<u>17.097</u>	<u>32.792</u>	<u>26.911</u>	<u>76.800</u>
<b>Accumulated depreciation</b>				
At 1 January 2007.....	7.067	16.739	9.379	33.186
Reclassification.....	(22)	(135)	157	0
Charge for the period.....	396	2.714	3.686	6.795
Exchange differences.....	511	1.114	285	1.910
Eliminated on disposal.....	0	(362)	(153)	(515)
Fully depreciated assets.....	0	(256)	(51)	(307)
At 30 September 2007.....	<u>7.952</u>	<u>19.815</u>	<u>13.303</u>	<u>41.069</u>
<b>Carrying Amount</b>				
At 30 September 2007.....	<u>9.146</u>	<u>12.977</u>	<u>13.608</u>	<u>35.730</u>
At 31 December 2006.....	<u>8.618</u>	<u>14.054</u>	<u>14.402</u>	<u>37.074</u>

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

	YTD 2007	YTD 2006
Cost of goods sold .....	2.347	2.284
Sales and marketing expenses .....	231	228
Research and development expenses.....	170	191
General and administrative expenses .....	4.047	1.964
	<u>6.795</u>	<u>4.667</u>

The following rates are used for the depreciation:

Buildings and sites 2 to 5%

Machinery & equipment 10 to 20%

Fixtures & office equipment 10 to 34%



# Notes to the Financial Statements

## 12. Goodwill

	30.9.2007
<b>Cost</b>	
At 1 January 2007.....	316.593
Arising on acquisition of subsidiaries.....	9.692
Addition due to previous acquisitions.....	1.026
Exchange differences.....	9.016
At 30 September 2007.....	<u>336.328</u>
<b>Carrying amount</b>	
At 30 September 2007.....	336.328
At 31 December 2006.....	<u>316.593</u>

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

## 13. Other intangible assets

Cost	Cust./distrib.				Total
	relationship	Patent	Trademark	Other	
At 1 January 2007.....	0	15.678	25.982	49.455	91.116
Additions.....	0	123	17	14	154
Reclassification.....	35.159	116	8.312	(43.587)	0
Exchange differences.....	1.288	578	1.398	0	3.264
At 30 September 2007.....	<u>36.447</u>	<u>16.495</u>	<u>35.709</u>	<u>5.882</u>	<u>94.534</u>
<b>Amortization</b>					
At 1 January 2007.....	0	5.443	1.801	13.913	21.157
Charge for the period.....	6.196	1.946	956	2.209	11.307
Reclassification.....	8.092	0	2.432	(10.524)	0
Exchange differences.....	325	321	56	0	702
At 30 September 2007.....	<u>14.613</u>	<u>7.710</u>	<u>5.245</u>	<u>5.598</u>	<u>33.166</u>
<b>Carrying Amount</b>					
At 30 September 2007.....	<u>21.834</u>	<u>8.785</u>	<u>30.464</u>	<u>284</u>	<u>61.368</u>
At 31 December 2006.....	<u>0</u>	<u>10.235</u>	<u>24.181</u>	<u>35.542</u>	<u>69.959</u>

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

These intangible 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 7%
Trademark	10 to 34%
Customer and distributor relationship	5 to 32%
Other intangible assets	12 to 20%

# Notes to the Financial Statements

	YTD 2007	YTD 2006
Cost of goods sold.....	341	185
Sales and marketing expenses.....	6.333	5.367
Research and development expenses.....	3.377	3.277
General and administrative expenses.....	1.256	1.081
	11.307	9.910

## 14. The Consolidation

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

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Ossur Holding, AB.....	Sweden	100%	Holding
Ossur Nordic, AB.....	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS.....	Norway	100%	Sales, distribution and services
Empower H. C. Solution, AB.....	Sweden	100%	Healthcare consulting
Ossur Americas Holdings, Inc.....	USA	100%	Holding
Ossur Americas, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Rigid Med. Techn., Inc.....	USA	100%	Services
Empower Business Sol, Inc.....	USA	100%	Healthcare consulting
Ortho Vantage, Inc.....	USA	100%	Services
Ossur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
Ossur Europe, BV.....	Netherlands	100%	Sales, distribution and services
Ossur UK, Holdings, Ltd.....	UK	100%	Holding
IMP Holdings, Ltd.....	UK	100%	Holding
Ossur UK, Ltd.....	UK	100%	Sales, distribution and services
TIM Holdings, Ltd.....	UK	100%	Holding
TIM, Ltd.....	UK	100%	Distribution and services
IMP, Ltd.....	UK	100%	R&D and manufacturer
Ortex, Ltd.....	UK	100%	Manufacturer
Ossur Holding France (SAS).....	France	100%	Holding
La Tour Finance (SAS).....	France	100%	Holding
Gibaud Pharma (EURL).....	France	100%	Immaterial Operations
Gibaud (SAS).....	France	100%	Manufacturer, sales, distribution and services
Derby Finances (SAS).....	France	50%	No operation
Tournier Bottu (SAS).....	France	100%	Manufacturing
Gibaud Espania (SA).....	Spain	100%	Sales, distribution and services
Gibaud Suisse (SA).....	Swiss	100%	Sales, distribution and services
Ossur Asia Pacific PTY, Ltd.....	Australia	100%	Sales, distribution and services
Ossur Prosth. & Rehabilit. Co, Ltd.....	China	100%	Manufacturer, sales, distribution and services
Gentleheal ehf.....	Iceland	100%	Manufacturer and sales

# Notes to the Financial Statements

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

On 7 February 2007 Ossur acquired Somas Orthoepaedic BV and Somas International BV in Holland. Somas has been merged in to Ossur Europe BV.

Ossur Americas Holdings, Inc. (formerly Ossur Holdings, Inc.) merged the majority of its legal entities into its wholly owned subsidiary Ossur Americas, Inc. (formerly Ossur North America, Inc).

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

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

## 15. Financial assets

Long-term investments are specified as follows:

	Investments	Loans	Total
Balance at 1 January 2006.....	608	904	1.512
Additions during the period.....	17	213	230
Acquired on acquisition of subsidiary.....	0	820	820
Changes / installments during the period.....	(100)	(352)	(452)
Exchange differences.....	0	98	98
At 1 January 2007.....	525	1.683	2.208
Additions during the period.....	6	644	650
Changes / installments during the period.....	0	(442)	(442)
Exchange differences.....	50	97	147
At 30 September 2007.....	581	1.982	2.563

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

## 16. Inventories

	30.9.2007	31.12.2006
Raw material.....	16.957	17.600
Work in progress.....	4.150	2.409
Finished goods .....	32.186	27.367
	53.293	47.376

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 9,833 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 2,438 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.

# Notes to the Financial Statements

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## 17. Accounts and other receivables

### Accounts receivables:

	<u>30.9.2007</u>	<u>31.12.2006</u>
Nominal value.....	60.823	51.024
Allowances for doubtful accounts.....	(2.703)	(1.162)
Allowances for sales return.....	(502)	(715)
	<u>57.618</u>	<u>49.147</u>

The average credit period taken on sale of goods is 48 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 management considers that the carrying amount of trade receivables approximates their fair value.

### Other receivables:

	<u>30.9.2007</u>	<u>31.12.2006</u>
VAT refundable.....	1.449	1.501
Prepaid expenses.....	6.196	5.594
Other.....	3.954	7.637
	<u>11.599</u>	<u>14.732</u>

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

### Bank balances and cash:

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

# Notes to the Financial Statements

## 18. Issued capital

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

	<u>Shares</u>	<u>Nominal value</u>
Total share capital at period-end.....	384,9	4.170

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

Changes in share capital are as follows:

	<u>Share capital</u>	<u>Share premium</u>	<u>Issued capital</u>
Balance as of 1 January 2006.....	4.160	103.119	107.279
Purchases of treasury stock.....	(5)	(707)	(712)
Exercised share options.....	15	971	986
Share capital as of 1 January 2007.....	<u>4.170</u>	<u>103.383</u>	<u>107.553</u>
Balance at 30 September 2007.....	<u>4.170</u>	<u>103.383</u>	<u>107.553</u>

## 19. Reserves

	<u>Statutory reserve</u>	<u>Share option reserve</u>	<u>Hedging reserve</u>	<u>Translation reserve</u>	<u>Translation reserve</u>
Balance at 1 January 2006.....	1.043	0	0	3.771	4.814
Exchange difference arising on translation of subsidiaries .....	0	0	0	4.176	4.176
Balance at 1 January 2007.....	<u>1.043</u>	<u>0</u>	<u>0</u>	<u>7.947</u>	<u>8.990</u>
Charge for the period.....	0	240	(6.057)	0	(5.817)
Translation difference.....	0	0	0	14.335	14.335
Balance at 30 September 2007.....	<u>1.043</u>	<u>240</u>	<u>(6.057)</u>	<u>22.282</u>	<u>17.507</u>

## 20. Accumulated profits

	<u>Accumulated profits</u>
Balance at 1 January 2006.....	40.736
Net profit for the period.....	4.360
Balance at 1 January 2007.....	<u>45.096</u>
Net profit for the period.....	932
Balance at 30 September 2007.....	<u>46.029</u>

# Notes to the Financial Statements

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

At 7 February the board agreed new share option agreements for the CEO and the six members of the Executive Committee. The key terms of these agreements were that the CEO is granted an option to purchase 1,250,000 shares of common stock and each member of the Executive Committee is granted an option to purchase 308,000 shares of common stock.

The total number of shares to be provided is 3,098,000 or 0.89% of the Company's current outstanding stock capital. These option will vest during the month of December 2011. The contract rate is ISK 113.4 per share, calculated as the average of the Company's share price during the last 20 working days prior to the annual general meeting dated 23 February 2007. Estimated costs due to the stock option contracts are USD 1.7 million which will be expensed over the next four years. During the period a total expense of 240 thousand was recognized in the Income Statement.

## 22. Loans from credit institutions

Long-term liabilities are specified as follows:

	30.9.2007	31.12.2006
Loans in USD .....	143.422	144.002
Loans in EUR .....	80.574	69.702
	223.996	213.704
Current maturities.....	(15.584)	(15.089)
	208.412	198.615

Aggregated annual maturities are as follows:

In 1.10.2007 - 30.9.2008 / 2007.....	15.584	15.089
In 1.10.2008 - 30.9.2009 / 2008.....	19.674	15.149
In 1.10.2009 - 30.9.2010 / 2009.....	20.998	20.326
In 1.10.2010 - 30.9.2011 / 2010.....	5.340	20.378
In 1.10.2011 - 30.9.2012 / 2011.....	75.394	71.269
Later.....	87.006	71.493
	223.996	213.704

The average interest rates were as follows:

	YTD 2007	YTD 2006
Bank loans.....	5,94%	5,99%

Debt issuance cost has been capitalized and is amortized over the term of the loan. The remaining amount is USD 2.4 million at period end.

The terms of the loan facility include various provisions that limit certain actions by the Company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

The Company has pledged buildings, machinery, equipment and inventories to secure banking facilities granted. 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 847 thousand was recognized in the Income Statement due to the swap agreements.

# Notes to the Financial Statements

## 23. Other long-term liabilities

Other long-term liabilities are specified as follows:

	30.9.2007	31.12.2006
Other liabilities in USD .....	269	577
Other liabilities in SEK.....	578	545
Other liabilities in GBP.....	0	1.747
Other liabilities other.....	123	92
	970	2.961
Current maturities.....	(748)	(242)
Other long-term liabilities.....	223	2.719

Aggregated annual maturities are as follows:

In 1.10.2007 - 30.9.2008 / 2007.....	748	242
In 1.10.2008 - 30.9.2009 / 2008.....	194	1.274
In 1.10.2009 - 30.9.2010 / 2009.....	27	289
In 1.10.2010 - 30.9.2011 / 2010.....	2	162
Later.....	0	994
	970	2.961

## 24. Deferred tax asset / (liability)

	30.9.2007	31.12.2006
At 1 January 2007 / 2006.....	30.281	(4.290)
Arising on acquisition of a subsidiary.....	0	(7.073)
Reclassification of Goodwill in Royce.....	0	35.862
Calculated tax for the period.....	575	5.219
Income tax payable for the period.....	1.294	603
Exchange differences.....	(288)	(40)
At 30 September 2007.....	31.862	30.281

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

	Assets	Liabilities	Net
Goodwill.....	45.037	0	45.037
Intangible assets.....	0	(30.038)	(30.038)
Operating fixed assets.....	166	(1.928)	(1.762)
Other.....	8.469	(682)	7.787
Tax loss carry forward.....	10.838	0	10.838
Total tax assets/liabilities.....	64.510	(32.648)	31.862
Tax asset and liabilities offsetting.....	(8.748)	8.748	0
Total.....	55.762	(23.900)	31.862

## Notes to the Financial Statements

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

	30.9.2007	31.12.2006
Loans from credit institutions.....	15.584	15.089
Other long-term liabilities.....	748	242
	<u>16.332</u>	<u>15.331</u>

### 26. Bank loans

In December 2006 the Company entered into a EUR 100 million (USD 135 million) bridge loan facility agreement to finance the acquisition of the Gibaud Group (La Tour Finance) in France. The bridge loan is included in the Company's current liabilities at the end of the period. An equity offering is planned to repay the loan.

From July 1st 2007 the bridge loan is acknowledged as a hedge against the net investments in Gibaud Group, which was acquired in December 2006. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the hedging reserve within equity.

### 27. Provisions

	Warranty Provisions	Restructuring Provisions	Other Provisions	Total
At 1 January 2007.....	2.745	7.059	1.148	10.952
Additional provision in the period.....	1.433	0	132	1.565
Exchange differences.....	0	402	92	494
Utilization of provision.....	(104)	(2.604)	(62)	(2.770)
At 30 September 2007.....	<u>4.074</u>	<u>4.857</u>	<u>1.310</u>	<u>10.241</u>

Provision are specified as non-current and current as follows:

Non-current.....	1.753	0	0	1.753
Current.....	2.321	4.857	1.310	8.488
	<u>4.074</u>	<u>4.857</u>	<u>1.310</u>	<u>10.241</u>

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

The restructuring provision is related to the acquisition of Gibaud in December 2006.



# Notes to the Financial Statements

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## 28. Acquisition of Somas

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

	USD Acquisition 7.2.2007
Net assets acquired:	
Operating fixed assets.....	90
Inventories.....	594
Other current assets.....	1.224
Bank balances and cash.....	30
Current liabilities.....	(815)
	<u>1.122</u>
Goodwill.....	9.692
Total consideration.....	<u>10.814</u>
Satisfied by cash.....	10.814
	<u>10.814</u>
Net cash outflow arising on acquisition:	
Cash consideration.....	10.814
Bank balances and cash acquired.....	(30)
	<u>10.783</u>

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

## 29. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 29 October 2007.