Ossur First Quarter Report for 2007

Life Without Limitations

Press release from Ossur hf.
Reykjavik, 1 May 2007

First Quarter 2007 Financial Highlights

- **Sales USD 80.4 million, up by 34% from Q1 2006**
- **Organic sales growth 4%**
- **Pro forma sales growth 7%**
- **EBITDA USD 10.2 million, up by 19% from Q1 2006**
- **EBITDA margin 12.7%, declining from 14.3% in Q1 2006**
- **Net loss USD 2.7 million compared to a net profit of USD 0.6 million in Q1 2006**

Jon Sigurdsson, President & CEO, comments:

"A major sales force restructuring program was initiated at Ossur Americas in February. The program will take us through the final steps of fully integrating the bracing and support companies we have acquired in North America into one consolidated Ossur. This has caused a short term set-back in growth and operating performance in the Americas but will return significant improvements in the medium to long term. The months ahead will be challenging but we look forward to harvesting the benefits of our efforts. In Europe, we are seeing a gradual improvement. Results in the UK and Germany are particularly satisfying."

Operating Results for the First Quarter of 2007

The operating results for the first quarter of 2007 are shown below. The Gibaud Group, acquired in December 2006, is included in the consolidated accounts for the whole quarter and Somas from 1 February 2007.

Income Statement Q1 2007 (USD '000)	Q1 2007	% of sales	Q1 2006	% of sales	Change
Net sales	80,380	100.0%	60,034	100.0%	33.9%
Cost of goods sold	(34,394)	-42.8%	(24,078)	-40.1%	42.8%
Gross profit	**45,986**	**57.2%**	**35,956**	**59.9%**	**27.9%**
Other income	320	0.4%	54	0.1%	493.8%
Sales & marketing expenses	(21,978)	-27.3%	(16,009)	-26.7%	37.3%
Research & development expenses	(4,994)	-6.2%	(4,699)	-7.8%	6.3%
General & administrative expenses	(15,277)	-19.0%	(8,542)	-14.2%	78.8%
Restructuring expenses	0	0.0%	(3,000)	-5.0%	-100.0%
Profit from operations	**4,058**	**5.0%**	**3,760**	**6.3%**	**7.9%**
Financial income /(expenses)	(7,852)	-9.8%	(4,921)	-8.2%	59.6%
Profit/(loss) before tax	**(3,794)**	**-4.7%**	**(1,161)**	**-1.9%**	**226.8%**
Income tax	1,088	1.4%	1,732	2.9%	-37.2%
Net profit/(loss) for the period	**(2,706)**	**-3.4%**	**571**	**1.0%**	**n/a**
EBITDA	**10,240**	**12.7%**	**8,594**	**14.3%**	**19.2%**

Sales

Sales during the quarter amounted to USD 80.4 million, representing an increase of 34% from the first quarter of 2006, measured in US dollars. Growth measured in local currency was 29%. Sales were below management's expectations, mainly due to disturbance following the extensive restructuring of the bracing and support sales force in Americas. This negative effect on sales was partially offset by an approximately USD 3 million positive impact of foreign exchange rate changes, particularly the strengthening of the euro against the US dollar.

Organic[1] sales growth was 4%, measured in US dollars and 1% measured in local currency. Pro forma sales growth, including Innovation Sports, Gibaud and Somas, was 7% measured in US dollars and 2% in local currency.

Total sales per business day amounted to USD 1,256 thousand, representing an increase of 35% from the first quarter of 2006, measured in US dollars.

Product groups

The division of sales between main product groups during the year was as follows:

USD '000	Q1 2007	Q1 2006	Growth in USD	Growth in LCY
Bracing & support	43,777	32,692	34%	29%
Prosthetics	30,166	26,892	12%	8%
Compression therapy	5,833	n/a	n/a	n/a
Other	604	450	34%	22%
Total	**80,380**	**60,034**	**34%**	**29%**

Sales of bracing and support products accounted for USD 43.8 million, representing 54% of total sales and an increase of 34% from the previous year, measured in US dollars and 29% measured in local currency. Pro forma sales growth was flat measured in US dollars and declining 3% when measured in local currency.

[1] Organic growth is measured as the total revenue growth less acquired revenue from acquisitions and revenues from divested operations. Organic revenues for the quarter under review are calculated by deducting the revenues from businesses owned less than 15 full months from reported revenues. Organic revenue growth is determined by comparing the organic revenues for the quarter under review to the corresponding quarter one year earlier. The corresponding quarter one year earlier excludes any revenues from acquisitions made in that specific quarter.

As previously mentioned the significant restructuring of the bracing and support sales force in Americas, initiated in February, had a negative impact on sales. This effect is expected to continue for the next months before a turnaround is achieved. Ossur's management is however confident that the changes made to the sales force will result in a significant positive effect on bracing and support sales in Americas going forward. Europe has seen an improvement in bracing and support sales.

Sales of the UnloaderOne® osteoarthritis knee brace continued to exceed expectations in the Americas. The brace was launched in Europe during the quarter, both in a custom made and an off-the-shelf version, and has been very well received. A major upgrade of Ossur's main ligament brace, the CTi, was introduced at the American Academy of Orthopaedic Surgeons' annual meeting (AAOS) in February in both a custom made and off-the-shelf version. The brace has been very well received.

Sales of prosthetic products accounted for USD 30.2 million, representing approximately 38% of total sales and a healthy growth of 12% from the first quarter of 2006, measured in US dollars, and 8% in local currency.

The prosthetics product mix is increasingly shifting towards Bionic products. Sales of the RHEO KNEE™ exceeded expectations and the PROPRIO FOOT™ and POWER KNEE™ continued to receive deserved attention by industry players and users alike. The PROPRIO FOOT™ recently received the 2007 Medical Design Excellence Award. Previous winners of the award include prominent industry players such as Stryker, GE Healthcare and Medtronic.

Investments in the Bionic technology platform are expected to yield new products and product upgrades in the near future. Gross profit margins of the Bionic products are expected to improve with increased volume and further development of manufacturing and service processes.

The year 2007 is projected to be a record year in the number of new product launches and product upgrades, both in prosthetics and bracing and supports. Leveraging on current technical platforms and increasing innovation in the bracing and support market segment remains an important aspect of Ossur's strategy and a key focus area for the Company's research and development teams in 2007.

Also important is the rationalization of the Company's existing product ranges, particularly following recent acquisitions. This extensive project is in full progress and is expected to have a positive effect on operating results in the medium to long term.

Compression therapy is a new product segment, acquired with Gibaud Group. Sales of compression therapy products in the first quarter accounted for USD 5.8 million, representing 7% of total sales. Pro forma sales growth was 33% measured in US dollars and 23% measured in local currency, well above market growth.

Geographical markets

The distribution of sales according to market regions during the first quarter of 2007 was as follows:

USD '000	Q1 2007	Q1 2006	Growth in USD	Growth in LCY
Americas	38,587	36,887	5%	5%
Europe	39,675	21,308	86%	71%
Asia	2,118	1,839	15%	17%
Total	**80,380**	**60,034**	**34%**	**29%**

As of 1 January 2007, the Company has adopted a new geographical segmentation comprising of Americas, Europe and Asia. Americas includes both North and South America, Europe also includes the Middle East and Africa and Asia also includes Australia. Comparison numbers for the first quarter of 2006 have been adjusted accordingly.

Americas

Sales in the Americas amounted to USD 38.6 million, representing 48% of total sales, compared to USD 36.9 million or 62% of total sales in the first quarter of 2006. Growth in sales per business day was the same. Sales were up by 5% from the previous year, both when measured in US dollars and local currency. Both organic and pro forma growth was 2%, measured in local currency, which was below the Company's targets.

Prosthetics sales in the Americas continued to grow significantly above the market growth.

Sales of bracing and support products were slightly declining, primarily due to the previously mentioned sales force restructuring program. The program will conclude the integration of the bracing and support companies acquired in North America into one consolidated Ossur. This has caused a short term set-back in growth and operating performance in Americas but is expected to return significant improvements in the medium to long term.

Europe

Sales in Europe, Middle East and Africa, amounted to USD 39.7 million, accounting for 49% of total sales, compared to 36% in the first quarter of 2006. Sales growth in the European market was 86%, measured in US dollars and growth in sales per business day was 89%. The strengthening of the euro, British pound and Swedish krona against the US dollar results in a growth rate of 71%, measured in local currency. Organic growth was 5%, measured in US dollars but a 3% decline measured in local currency. Pro forma sales growth was 11% measured in US dollars and 2% measured in local currency.

Europe, excluding Gibaud, is seeing a gradual turnaround. Prosthetics sales growth was in line with expectations and even though bracing and support sales declined, there are clear trends of turnaround emerging. UK and Germany are both on track and the Somas integration is progressing according to schedule.

Gibaud's sales grew by 8% from the first quarter of 2006, measured in local currency. Bracing and support sales declined while compression therapy sales growth was strong, exceeding market growth. Opportunities for selling Ossur products through the Gibaud sales channels and vice versa are being explored further and a number of projects are initiated.

Asia

Sales in Asia amounted to USD 2.1 million, representing 3% of total sales, the same as in the first quarter of 2006. Sales growth was 17%, measured in local currency.

Gross profit

Gross profit amounted to USD 46.0 million or 57.2% of sales, compared to USD 36.0 million or 59.9% of sales in the first quarter of 2006. As part of the purchase price allocation for the Gibaud Group, acquired in December 2006, inventory was recorded at fair value. This had the effect of decreasing the gross profit in the first quarter of 2007 by USD 1.3 million, or by 1.6% as a ratio of gross profit to sales. Gross profit margin excluding the impact of the Gibaud inventory step-up was 58.8%. Additionally, build up of the Company's distribution network in Europe and Americas, with the aim of improving customer service, had a negative effect on distribution costs.

Operating expenses

Amortization of intangible assets relating to acquisitions continues to have a significant impact on profit from operations and net profit for the period, although not affecting cash flow and EBITDA. The amortization amounted to USD 3.6 million, compared to USD 3.1 million in 2006. Amortization reduced the ratio of operating profit to sales in 2006 by 4.4 percentage points and net profit to sales by 2.7 percentage points. The amount is allocated to individual operating items as follows:

Expense item	Q1 2007 USD '000	Q1 2007 % of sales	Q1 2006 USD '000	Q1 2006 % of sales
Sales and marketing expenses	2,095	2.6%	1,767	2.9%
Research & development expenses	1,076	1.3%	1,011	1.7%
General & administrative expenses	391	0.5%	349	0.6%
Effect on profit from operations	(3,562)	-4.4%	(3,127)	-5.2%
Effect on net profit	(2,195)	-2.7%	(1,803)	-3.0%

Amortization of intangible assets will continue at the same level for the next 4 years and then drop to a lower level for another 6 years. Further acquisitions will affect the amortization level.

Sales and marketing expenses amounted to USD 22.0 million or 27.3% of sales, as compared to USD 16.0 million or 26.7% of sales in the first quarter of 2006. The fact that sales were lower than expected is the primary reason for the ratio increase. Investments in restructuring of the sales organization and sales channels are expected to return a positive effect on sales and marketing expenses in the medium term.

Research and development expenses amounted to USD 5.0 million or 6.2% of sales, as compared to USD 4.7 million or 7.8% of sales in the first quarter of 2006. Research and development cost ratios of recently acquired companies, including Gibaud, were considerably lower than historically at Ossur. All internal research and development costs are expensed as incurred.

General and administrative expenses were USD 15.3 million or 19.0% of sales, as compared to 8.5 million or 14.2% of sales in the first quarter of 2006. Severance payments relating to the restructuring of sales channels in Americas, woundcare litigation costs and Somas integration expenses amounted to USD 1.8 million or 2.2% of sales. Gibaud's general and administrative cost ratio is higher than has been seen at Ossur, resulting in a higher consolidated ratio. Sales being below expectations also contribute to the significant increase in the ratio of general and administrative expenses to sales.

The preliminary estimated USD 650 thousand restructuring cost relating to the acquisition of Somas in February proved to be a lesser amount and will be expensed among regular operating cost items as incurred during 2007.

Profit from operations

Profit from operations in the first quarter of 2007 amounted to USD 4.1 million, compared to USD 3.8 million in 2006, or 5.0% and 6.3% of sales respectively. The USD 1.3 million inventory step-up relating to the acquisition of Gibaud had a negative impact on profit from operations, by 1.6% as a ratio of profit from operations to sales. Similarly, one-time restructuring expenses related to the acquisition of Innovation Sports had a negative effect on profit from operations in the first quarter of 2006 by 5% as a ratio of sales. The operating profit margin excluding these items was 6.7% and 11.3% in the first quarter of 2007 and 2006 respectively. The fact that sales during the quarter were lower than expected is a key reason for this negative trend as a significant portion of operating expenses are fixed. The previously mentioned severance payments and litigation costs also have a negative impact.

Financial expenses

Net financial expenses amounted to just short of USD 7.9 million, including USD 6.0 million interest expenses on bank loans and USD 2.2 million in negative exchange rate differences.

Interest on bank loans increased by 70%, mainly due to the USD 133.1 million (EUR 100 million) bridge loan agreement, undertaken in December 2006 to finance the acquisition of Gibaud.

Ossur has entered into an interest rate swap agreement fixing the rates of USD 140 million and EUR 48.6 million of its long term debt at a weighted average of 5.99% per annum interest rate throughout the term of the loan.

Approximately 64% of Ossur's long term liabilities are in US dollars and 36% in Euros. The 10% increase in the Euro/US dollar spot rate from the beginning to the end of the quarter resulted in a negative exchange rate difference on long term liabilities and the bridge loan amounting to USD 2.3 million.

Income tax

The net loss and deductions relating to the internal financing structure of the Company result in an overall positive income tax of USD 1.1 million.

Profitability

An overview of profitability, showing the impact of one-time restructuring expenses and amortization of intangible assets relating to acquisitions is shown below:

Profit (USD '000)	2007	Excl. inventory step-up	Excl. inv. step-up & amortization
Operating profit	4,057	5,345	8,907
EBITDA	10,240	11,528	11,528
Net profit / (loss)	(2,706)	(1,869)	325

EBITDA amounted to USD 10.2 million compared to USD 8.6 million in the first quarter of 2006, increasing by 19.2%. The ratio of EBITDA to sales was 12.7% in 2007, as compared to 14.3% in the first quarter of 2006.

Net loss amounted to USD 2.7 million compared to a net profit of USD 0.6 million in the first quarter of 2006.

Balance Sheets

Consolidated Balance Sheets (USD '000)	31 March 2007	31 December 2006	Change
Fixed assets	495,873	489,319	1%
Current assets	134,218	123,433	9%
Total assets	**630,091**	**612,752**	**3%**
Stockholders' equity	160,148	161,639	-1%
Long-term liabilities	239,469	234,538	2%
Current liabilities	230,474	216,575	6%
Total equity and liabilities	**630,091**	**612,752**	**3%**

Total assets increased from USD 612.8 million at the end of 2006 to USD 630.0 million at the end of the first quarter of 2007, or by 3%. The acquisition of Somas in February accounts for USD 11.0 million of the increase.

As previously mentioned, the strengthening of the euro against the US dollar in the first quarter resulted in a USD 2.3 million negative exchange rate difference on the euro portion of the Company's long term bank loans.

The equity ratio at the end of the first quarter was 25% as compared to 26% at the end of 2006. The Gibaud Group in France was acquired in December 2006 for an acquisition price of USD 132 million. The acquisition was financed with a USD 131.3 million (EUR 100 million) bridge loan facility which is included in the Company's current liabilities and cash. An equity offering is planned for 2007. In the meantime, the Company's equity ratio is below the minimum policy rates stated in the Company's Financial Risk Management Policy. This temporary deviation has been approved by the Board of Directors.

Cash Flow

Cash Flow (USD '000)	Q1 2007	% of sales	Q1 2006	% of sales
Cash generated by operations, before interest and tax	6,424	8.0%	6,076	10.1%
Net cash provided by operating activities	2,111	2.6%	1,197	2.0%
Working capital provided by operating activities	5,504	6.8%	5,026	8.4%

Cash generated by operations, before interest and taxes, amounted to USD 6.4 million or 8% of sales, as compared to USD 6.1 million in the first quarter of 2006. The increase corresponds to 6%.

Capital expenditure amounted to USD 1.9 million or 2.4% of sales, compared to USD 2.4 million or 4.0% of sales in the first quarter of 2006.

Earnings Per Share

Financial Ratios	Q1 2007	Q1 2006
EPS diluted (US cents)	(0.70)	0.15
EPS diluted, adjusted (US cents)*	(0.49)	0.62
Cash EPS diluted (US cents)	0.90	1.40
Cash EPS diluted, adjusted (US cents)*	1.12	1.87

* Excluding one-time restructuring cost and inventory-step up related to acquisitions in both periods.

Earnings per diluted share were negative by 0.70 US cents compared to positive 0.15 cents in the first quarter of 2006.

Cash earnings per diluted share are measured as net profit plus depreciation and amortization per diluted share. Cash earnings per diluted share amounted to 0.90 US cents compared to 1.40 US cents in the first quarter of 2006, decreasing by 36%.

Five Year Comparison

Five Year Comparison (USD '000)	Q1 2007	Q1 2006	Q1 2005	Q1 2004	Q1 2003
Net sales	80,380	60,034	31,150	30,668	21,692
Profit from operations	4,058	3,760	4,401	4,546	1,970
Financial income / (expenses)	-7,852	-4,921	-411	-278	-126
Profit (loss) before tax	-3.794	-1,161	3,990	4,268	1,844
Net profit (loss)	-2,706	571	3,173	3,263	1,404
Stockholders' equity	160,148	154,027	57,382	46,068	41,562
Total assets	630,091	435,227	106,007	105,699	72,729
Working capital from operating activities	5,504	5,026	4,980	5,347	2,171
Net cash provided by operating activities	2,111	1,197	1,253	2,044	686
Return on common equity (LTM)	1%	9%	29%	15%	29%
Current ratio	0.6	1.5	2.6	2.2	2.2
Equity ratio	25%	35%	54%	44%	57%
Earnings per share (US cents) (LTM)	2.82	2.61	4.79	2.03	3.23
Price per share at end of quarter (ISK)	125.0	115.5	83.5	49.8	47.5
Market value at end of quarter (USD million)	731	627	438	225	204

Operating Prospects

The long term prospects for Ossur's operations are promising. Strong underlying market growth drivers include demographic aspects such as an aging population, increases in lifestyle diseases and more active and wealthy seniors. Ossur has an attractive market position in its major product segments, prosthetics, bracing and support and compression therapy. There are significant opportunities for further consolidation of the two latter markets. The Company's technical leadership in the prosthetics market and intentions of leveraging that technology in the bracing and support market further enhance the prospects of success.

The Company reaffirms its previously reported guidance for sales in 2007, being around USD 330 million, up from USD 252 million in 2006, or by approximately 30%. The anticipated set-back in bracing and support sales growth in the Americas, following the sales force restructuring program, is expected to be offset by positive currency trends. However, EBITDA is expected to be lower than previously communicated, or in the range of USD 53 to 56 million, increasing from USD 47.9 million in 2006. The 2007 EBITDA margin is expected to be in the range of 16-17%, excluding acquisition related inventory step-up. In addition to costs associated with the previously discussed sales force restructuring program, significant litigation expenses relating to the Company's woundcare operations are foreseen during the remainder of the year, in the range of USD 2 to 2.5 million.

As previously communicated, an equity offering is planned to take place in 2007. The offering details will be announced at a later stage.

Approval of Financial Statements

The Ossur hf. Consolidated Financial Statements for the first quarter of 2007 were approved at a meeting of the Board of Directors 30 April 2007. The statements, prepared in compliance with International Financial Reporting Standards (IFRS), have been reviewed and endorsed by the Company's auditors without comments.

Investor Presentations

On Wednesday, 2 May 2007, Ossur will host briefings for investors, analysts and shareholders.

Jon Sigurdsson, President and CEO, and Hjorleifur Palsson, CFO, will host a live conference call in English at 12:00 GMT, 14:00 CET and 8:00 am Eastern Standard Time. The telephone conference can be heard on the Ossur website: www.ossur.com.

Please call the following telephone numbers to participate in the conference:

Telephone number for Europe: +44 (0) 20 7162 0025
Telephone number for the United States: +1 334 323 6201

Queries can also be sent to the meeting held in English by e-mail to investormeeting@ossur.com.

At 16:15 GMT, there will be an open meeting with Company management at the Grand Hotel at Sigtun in Reykjavik. Jon Sigurdsson, President and CEO, and Hjorleifur Palsson, CFO, will present and discuss the operations of the quarter.

Presentation material will be available on the Company's website www.ossur.com and the News System of the Iceland Stock Exchange www.icex.is.

Financial Calendar for 2007

The estimated dates of publication of interim and annual financial statements relating to 2007 are as follows:

Second quarter 2007 results	**31 July 2007**
Third quarter 2007 results	**30 October 2007**
Fourth quarter and annual 2007 results	**5 February 2008**
2008 Annual General Meeting	**22 February 2008**

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About Ossur
Ossur (Icelandic Stock Exchange: OSSR) is as much about helping people to live a *life without limitations* as it is about its orthopaedic products. A trusted and global leader in the development, manufacturing, distribution, sales and marketing of braces and support products, prosthetics and compression therapy, Ossur creates award-winning designs – including its bionic technologies – and partners with the health practitioners who use them to deliver successful clinical and business outcomes. With headquarters in Reykjavik, Iceland, the company has operations and a distribution network throughout the world. The company allocates 6-8% of its revenue to research and development to conceive and harness the most advanced technologies for incorporation in its product designs, and provides extensive education programs through the *Ossur Academy*. Website: www.ossur.com

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.