Ossur Second Quarter Report for 2006

Life Without Limitations

Press release from Ossur hf.

Reykjavik, 31 July 2006

Second quarter highlights

- **Sales USD 65.5 million, up by 85% from Q2 2005, measured in USD.**
- **Organic sales growth 8%.**
- **Pro forma sales growth 4%.**
- **Amortization of intangible assets relating to recent acquisitions USD 3 million.**
- **EBITDA USD 13.1 million, up by 69% from Q2 2005.**
- **EBITDA ratio 20%, declining from 22% for Q2 2005.**
- **Net profit USD 3.9 million, excluding amortization of intangible assets related to recent acquisitions, down from USD 4.6 million for Q2 2005. Net profit USD 2.1 million without adjustment for amortization of intangible assets.**
- **Cash earnings per share diluted 1.76 US cents (net profit plus depreciation and amortization per share diluted), down from 1.86 US cents for Q2 2005.**
- **Earnings per share diluted 0.55 US cents, decreasing from 1.47 US cents for Q2 2005.**

Jon Sigurdsson, President & CEO, comments:

"We achieved exceptional internal sales growth in prosthetics in North America and sales of bracing and support products were in line with expectations. However, sales of bracing and support products in Europe did not meet our expectations, mainly due to a decline in sales to distributors. Integration and restructuring activities continue to be major focus areas. Significant progress has been made and although we have been challenged in Europe we are optimistic about meeting our targets for the year. Our first major product innovation in the bracing and support sector, the Unloader® One knee brace, is proving to be a great success and the results from our limited launch of the bionic Power Knee™ and Proprio Foot™ are very promising. We will continue improving our existing operations as well as exploring external opportunities to reach our future goals."

Second quarter operating results

Following are the principal operating results of the second quarter of 2006. A special account is given of the impact of amortization of intangible assets relating to the recent acquisitions of Royce Medical, Inc. and Innovation Sports, Inc. in the USA and IMP Holdings, Ltd. in the UK.

Income Statements Q2 2006 (USD '000)	Q2 2006	Adjust. amort.	Q2 excl. amort.	% of sales	Q2 2005	% of sales	Change
Net sales	65,500		65,500	100%	35,422	100%	85%
Cost of goods sold	-26,787		-26,787	-41%	-13,863	-39%	93%
Gross profit	**38,713**		**38,713**	**59%**	**21,559**	**61%**	**80%**
Other income	69		69	0%	510	1%	-87%
Sales & marketing expenses	-17,323	1,699	-15,624	-24%	-7,002	-20%	123%
Research & development expenses	-4,228	1,047	-3,181	-5%	-2,767	-8%	15%
General & administrative expenses	-8,753	256	-8,497	-13%	-5,800	-16%	46%
Profit from operations	**8,478**		**11,481**	**18%**	**6,500**	**18%**	**77%**
Financial income / (expenses)	-5,987		-5,987	-9%	-271	-1%	2109%
Profit / (loss) before tax	**2,491**		**5,494**	**8%**	**6,229**	**18%**	**-12%**
Income tax	-372	-1,174	-1,546	-2%	-1,614	-5%	-4%
Net profit for the period	**2,119**		**3,948**	**6%**	**4,615**	**13%**	**-14%**
EBITDA	**13,144**		**13,144**	**20%**	**7,758**	**22%**	**69%**

Sales

Sales during the quarter amounted to USD 65.5 million, representing an increase of 85% from the second quarter of 2005, measured in US dollars. The impact of foreign exchange rate changes on sales was neutral, where the positive effect of a stronger Canadian dollar and, to a lesser extent Euro, is largely offset by a weakening British pound and Swedish krone, comparing to the second quarter of 2005.

Organic growth was 8%, measured in US dollars and pro forma sales growth, including the recently acquired Royce, Innovation Sports and IMP, was 4%.

Royce achieved a pro forma sales growth of 8% in the North American market, which was offset by a decline in the European and International markets, resulting in an overall pro forma growth of 1%.

Innovation Sports sales were slightly below target in North America and sales in the European and International markets were below expectations, resulting in an overall pro forma sales decline of 10%.

The UK based IMP's experienced a pro forma sales decline of 3% from the second quarter of 2005, which is slightly below expectations. Integration is progressing according to schedule and management anticipates achieving annual sales and profitability targets.

Total sales per business day amounted to just over USD 1 million, representing an increase of 89% from the second quarter of 2005, measured in US dollars.

Product groups

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

USD '000	Q2 2006	Q2 2005	Change
Prosthetics	30,426	27,455	11%
Braces & Support	34,796	7,589	359%
Other	278	378	-26%
Total	**65,500**	**35,422**	**85%**

Sales of prosthetic products accounted for USD 30.4 million, representing over 46% of total sales and an increase of 11% from the second quarter of 2005. Ossur clearly remains a leading player in the prosthetic sector with an internal growth rate exceeding the market growth rate.

The Company's technological leadership was confirmed by the recent limited launch of breakthrough Bionic Technology products, the Power Knee™ and the Proprio Foot™. The Power Knee™ is the world's first powered prosthesis for above-knee amputees, replacing true muscular activity to bend and straighten the knee as required. By gathering sensory information one step ahead of the prosthesis, the Power Knee™ is unique in its ability to anticipate and pro-actively provide the function appropriate to daily activities, working as an integrated extension of its user.

The Proprio Foot™ is the world's first intelligent foot module providing a wide and automated ankle flexion which enables function as close as you can get to the human foot today. The Proprio Foot™ thinks for itself, responding to changing terrain and transforming the approach to stairs and slopes as well as level ground walking. Overall, the effect is a more balanced, symmetric and confident gait with reduced wear and tear on the back, hips and knees.

Both the Power Knee™ and Proprio Foot™ have received a great deal of interest from both orthotists and prosthetists as well as orthopaedic surgeons and amputees. The products were presented at Europe's leading orthopaedic tradeshow which was held in Leipzig, Germany in May. High on the list of attractions for the 14,900 visitors from 83 countries was Ossur's Bionic Booth, showing presentations to a full house twice a day. The products also caused excitement at the Amputee Coalition of America's annual conference and exposition held in June.

Sales of bracing and support products accounted for USD 34.8 million, representing over 53% of total sales and an increase of 359% from the previous year. The first major product innovation in the bracing and support sector, the Unloader® One osteoarthritis knee brace, has proven to be a great success with sales already exceeding expectations in North America. The Unloader® One will be launched in Europe later this year. This project has proven Ossur's ability to leverage technical knowledge and introduce product innovation into the bracing and support sector.

Geographical markets

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

USD '000	Q2 2006	Q2 2005	Change in USD	Change in LCY
North America	40,485	18,133	123%	121%
Europe	20,773	14,794	40%	42%
Other markets	4,242	2,495	70%	70%
Total	65,500	35,422	85%	84%

North America is Ossur's largest market, representing 62% of total sales. Growth remained strong, with sales up by 123% from the second quarter of 2005, measured in US dollars. Sales per business day increased by 127%, measured in US dollars. Strengthening of the Canadian dollar against the US dollar results in a slightly lower growth rate measured in local currency, or 121% versus 123% measured in USD. Organic growth was 11%, measured in local currency. Integration of Royce and Innovation Sports is proceeding according to schedule and significant progress has been made. Various Ossur products are successfully being sold through the new Royce sales channels.

Europe, including the Nordic countries, accounts for 32% of total sales. Sales growth in the European market was 40%, measured in US dollars. Sales per business day increased by 46% from the second quarter of 2005. The weakening of the British pound and Swedish krone is partially offset by a slight strengthening of the Euro, resulting in a 42% growth rate measured in local currency, versus 40% measured in USD. Organic growth was 3%, measured in local currency. Although sales of bracing and support products during the quarter were below expectations, prospects remain positive. The integration of IMP is on schedule.

International sales account for 6% of total sales, growing 70% from the second quarter of 2005. Ossur continues to strengthen its links with China and presented its new developments in Bionic Technology to Mr. Deng Pufang during his official visit to Iceland in July. Mr. Pufang is Chairman of the China Disabled Persons' Federation and is well known for his campaigning work for disability rights, both in China and abroad. Mr. Pufang commented on how impressed he was with the technology and that he looked forward to developing a good relationship with Ossur in the future.

Gross profit

Gross profit amounted to 59% of sales, almost 2% lower than for the second quarter of 2005. The positive effect of Royce's higher gross margin is outweighed by the lower gross profit margin of IMP and Innovation Sports. Exchange rate trends had a positive effect on cost of goods sold, mainly due to the weakening of the Icelandic krona against the US dollar. Costs related to the worldwide recall of Total Knee prosthetic devices in late March were more than originally anticipated. The recall was based on a finding of faulty pin parts. No incidents or injuries resulting from this situation have been reported to the Company.

Operating expenses

Amortization of intangible assets relating to the acquisition of Royce, IMP and Innovation Sports has a significant impact on profit from operations and net profit for the period, although it does not affect cash flow and EBITDA. The amortization in the second quarter amounted to USD 3 million, reducing the ratio of operating profit to sales by 4.6 percentage points and net profit to sales by 2.8 percentage points. The amount is allocated to individual operating items as follows:

Expense item	Amount in USD '000	Ratio of amortization to sales
Sales and marketing expenses	1,699	2.6%
Research & development expenses	1,047	1.6%
General & administrative expenses	256	0.4%
Total	3,002	4.6%

The amortization of acquired intangible assets will continue for the next 4-5 years.

Sales and marketing expenses increased to 26% of sales, up from 20% for the second quarter of 2005. The change corresponds to 6.6 percentage points, of which 2.6 result from the amortization of intangible assets relating to recent acquisitions.

Research and development expenses amounted to 6.5% of sales, as compared to 7.8% for the second quarter of 2005. Amortization of intangible assets relating to recent acquisitions accounts for 1.6 percentage points. The strengthening of the US dollar against the Icelandic krona has a significant positive effect, as Ossur's research and development activities are mainly conducted in Iceland. Additionally, the research and development cost ratio of acquired companies was considerably lower than at Ossur. All research and development costs continue to be expensed.

General and administrative expenses were 13.4% of sales, down from 16.4% for the second quarter of 2005. Increased operating efficiency relating to economies of scale is starting to be realized. Additionally, the strengthening of the US dollar against the Icelandic krona has a positive effect on this item as a proportion of the expenses come about in Iceland where the Company's headquarters are located.

Financial expenses

Net financial expenses amounted to just short of USD 6 million, including USD 3.6 million interest on bank loans and USD 2.4 million exchange rate differences.

Interest rates on bank loans increased by 921%, representing the significant increase in leverage following recent acquisitions. The Company's equity ratio was 36% at the end of the second quarter, down from 56% at the end of the second quarter of 2005. 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 5.99% per annum interest rate throughout the term of the loan.

Approximately 70% of Ossur's long term liabilities are in US dollars and 30% in Euros. The significant strengthening of the Euro against the US dollar during the second quarter results in a negative exchange rate differences in the amount of USD 3.2 million. These negative effects represent the difference in spot exchange rates from the end of the first quarter of 2006 to the end of the second quarter and could be reversed by future market changes.

Income tax

Significant tax deductions relating to recent acquisitions, as well as deductions relating to the internal financing structure of the Company, result in an effective tax rate of 15%.

Profit ratios

As previously mentioned, gross profit amounted to 59% of sales, almost 2% lower than for the second quarter of 2005. The positive effect of Royce's higher gross margin and exchange rate changes is outweighed by the lower gross profit margin of IMP and Innovation Sports and product recall costs.

The operating profit margin was 13% in the second quarter, as compared to 18% in the second quarter of 2005. The margin is slightly lower, or 17.5%, when amortization of intangible assets relating to recent acquisitions is excluded. The negative change in the gross profit margin is offset by a positive development of operating expenses excluding amortization. The effect of exchange rate differences from the second quarter of 2005 had a positive effect on cost of goods sold and operating expenses, amounting to approximately USD 0.8 million.

The ratio of EBITDA to sales was 20% in the second quarter, as compared to 22% in the second quarter of 2005.

Net profit amounted to USD 2.1 million or just over 3% of sales, compared to USD 4.6 million or 13% of sales for the second quarter of 2005. Net profit excluding amortization of intangible assets relating to recent acquisitions amounted to USD 3.9 million or 6% of sales. The decline is mainly due to increased financial expenses following increased leverage and the negative exchange rate difference due to the strengthening of the Euro against the US dollar.

January – June 2006 operating results

Income Statements H1 2006 (USD '000)	H1 2006	Adjust. restr. & amort.	H1 excl. restr. & amort.	% of sales	H1 2005	% of sales	Change
Net sales	125,534		125,534	100%	66,572	100%	89%
Cost of goods sold	-50,865		-50,865	-41%	-26,364	-40%	93%
Gross profit	**74,669**		**74,669**	**59%**	**40,208**	**60%**	**86%**
Other income	123		123	0%	586	1%	-79%
Sales & marketing expenses	-33,332	3,332	-30,000	-24%	-13,995	-21%	114%
Research & development expenses	-8,927	2,038	-6,889	-5%	-5,202	-8%	32%
General & administrative expenses	-17,295	489	-16,806	-13%	-10,696	-16%	57%
Restructuring expenses	-3,000	3,000	0	0%			
Profit from operations	**12,238**		**21,097**	**17%**	**10,901**	**16%**	**94%**
Financial income /(expenses)	-10,908		-10,908	-9%	-682	-1%	1499%
Profit/(loss) before tax	**1,330**		**10,189**	**8%**	**10,219**	**15%**	**0%**
Income tax	1,360	-3,484	-2,124	-2%	-2,431	-4%	-13%
Net profit for the period	**2,690**		**8,065**	**6%**	**7,788**	**12%**	**4%**
EBITDA	**21,738**		**24,738**	**20%**	**13,291**	**20%**	**86%**

Sales during the first six months of 2006 amounted to USD 125.5 million, representing an increase of 89% from the first six months of 2005, measured in US dollars. Organic sales growth was 10% and pro forma sales growth was 7%.

Profit from operations, excluding one time restructuring expenses and amortization of intangible assets, was USD 21.1 million or 17% of sales, representing a 94% increase from the first six months of 2005. EBITDA excluding one time restructuring costs amounted to USD 24.7 million, compared to USD 13.3 million for the first six months of 2005, increasing by 86%. The ratio of EBITDA to sales remains unchanged at 20%.

Cash EPS diluted, excluding one time restructuring expenses, was 3.64 US cents, increasing from 3.23 US cents for the first six months of 2005, or by 13%.

Capital expenditure amounted to USD 4.4 million for the first six months of 2006, corresponding to 3.5% of sales.

Balance sheet

Consolidated Balance Sheets (USD '000)	30 June 2006	31 December 2005	Change
Fixed assets	363,016	325,873	11%
Current assets	84,270	82,113	3%
Total assets	**447,286**	**407,986**	**10%**
Stockholders' equity	159,074	152,829	4%
Long-term liabilities	232,123	215,361	8%
Current liabilities	56,089	39,796	41%
Total equity and liabilities	**447,286**	**407,986**	**10%**

Total assets increased from USD 408 million at the end of 2005 to USD 447.2 million at the end of the second quarter, or by 10%. Innovation Sports was acquired in January 2006 for an acquisition price of USD 38.4 million which was partially financed by existing cash and partially by a USD 40 million addition to the Company's long term loan agreement. USD 20 million are still undrawn and available.

The equity ratio at the end of the second quarter was 36%, as compared to 37% at the end of 2005 and 56% at the end of the second quarter of 2005.

As previously mentioned, the strengthening of the Euro against the US dollar had a negative effect on the Company's long term liabilities, resulting in a negative exchange rate difference of USD 3.2 million. These negative effects represent the difference in spot exchange rates from the end of the first quarter of 2006 to the end of the second quarter and could be reversed by future market changes.

Cash flow

Cash Flow (USD '000)	January-June 2006	January-June 2005
Working capital provided by operating activities	14,513	12,095
Cash generated by operations, before interest and taxes	17,145	9,503
Cash flows from investing activities	-44,021	-3,880
Cash flows from financing activities	24,609	-4,386
Net change in cash and cash equivalents	-12,607	-573

Cash generated by operations, before interest and taxes, amounted to USD 17.1 million in the first half of 2006, as compared to USD 9.5 million in the first half of 2005. The increase corresponds to 80%.

Financial ratios

Financial Ratios	January-June 2006	January-June 2005	Q2 2006	Q2 2005
EPS (US cents)	0.70	2.48	0.55	1.47
EPS diluted (US cents)	0.70	2.47	0.55	1.47
Cash EPS diluted (US cents)	3.17	3.23	1.76	1.86
Cash EPS diluted, excluding one time restructuring expenses (US cents)	3.64	3.23	1.76	1.86

Earnings per diluted share amounted to 0.55 US cents in the second quarter, down from 1.47 US cents in the second quarter of 2005, representing a 63% decline.

Cash earnings per diluted share are measured as net profit plus depreciation and amortization per diluted share. Cash earnings per diluted share, amounted to 1.76 US cents in the second quarter, down from 1.86 US cents, representing a 5% decline. Cash earnings per diluted share for the first half of 2006, excluding USD 3 million one time restructuring expenses in the first quarter, amounted to 3.64 US cents, increasing from USD 3.23 US cents from the first half of 2005, or by 13%.

The effect of the increase in the Company's leverage associated with financing of recent acquisitions and the related significant increase in interest expenses must be considered when assessing changes in earnings per share.

Five year comparison

Five Year Comparison	Q2 2006	Q2 2005	Q2 2004	Q2 2003	Q2 2002
Net sales	65,500	35,422	31,775	22,726	21,223
Profit from operations	8,478	6,500	5,622	2,549	2,989
Financial income / (expenses)	-5,987	-271	-696	-247	338
Profit (loss) before tax	2,491	6,229	4,926	2,302	3,309
Net profit	2,119	4,615	3,860	1,908	2,589
Stockholders' equity	159,074	60,755	49,669	44,171	33,559
Total assets	447,286	108,433	103,515	85,825	67,199
Working capital provided by operating activities	9,487	7,115	6,343	3,183	3,558
Net cash provided by operating activities	5,608	6,440	3,967	4,230	554
Return on common equity LTM	6%	29%	18%	25%	29%
Current ratio	1.5	2.3	2.1	3.5	2.0
Equity ratio	36%	56%	48%	51%	50%
Earnings per share (EPS) LTM	1.80	5.04	2.65	3.02	2.74
Price per share end of quarter (ISK)	108.5	79.5	69.0	51.5	55.5
Market value end of quarter (USD million)	545	388	302	221	211

Operating prospects

Prospects for operations in 2006 and 2007 are positive. Integration and restructuring following recent acquisitions are proceeding according to plans and projected to return an annual operating efficiency of up to USD 8 million from 2007. Results from a recent global workplace audit performed by IMG Gallup were very positive, confirming the success of integration activities relating to the Company's most valuable resource, its workforce.

In 2006, it is estimated that Ossur's sales will exceed USD 250 million, with EBITDA excluding unusual expenses at approximately 20%.

Long term prospects remain positive. Strong underlying market growth drivers, ambitious internal initiatives to achieve operational excellence, continuing technological leadership and strategic acquisitions are the main foundations for achieving the sales goal of USD 750 million and EBITDA of 23% by the end of 2010.

Recognitions

In June, Ossur was awarded the Investor Relations Magazine Nordic award for best investor relations from an Icelandic company. The awards are based on results from an independent research survey covering a broad cross-section of the Nordic investment community. This is the third time Ossur receives this honour, but the Company has been nominated five times.

Correction of error in the Annual Report for 2005

An unfortunate mistake was made in the Financial Items section on page 41 of Ossur's Annual Report for 2005. The breakdown of sales and operating expenses into different currencies was interchanged such that the expense ratios were presented as sales ratios and vice versa. An updated electronic version of the annual report is available on the Company's website.

Approval of Financial Statements

The Ossur hf. Consolidated Financial Statements for the second quarter of 2006 was approved at a meeting of the Board of Directors today. The statement, prepared in compliance with the International Financial Reporting Standards (IFRS), has been reviewed and endorsed by the Company's auditors without comments.

Investor presentations

On Tuesday, August 1st, Ossur will host briefings for investors.

A telephone conference in English will be held at 13:00 GMT, 15:00 CET and 9:00 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. At the meeting, 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 2006

Following are the estimated dates of publication of financial statements in 2006:

Third quarter	**30 October 2006**
Fourth quarter	**7 February 2007**
2007 Annual General Meeting	**23 February 2007**

Ossur press releases by e-mail

If you wish to receive Ossur press releases by e-mail please register at the following web-site: http://www.ossur.com/investormailings.

Further information

Jon Sigurdsson, President & CEO	**Tel: +354 515 1300**
Hjorleifur Palsson, CFO	**Tel: +354 515 1300**
Sigurborg Arnarsdottir, IR Manager	**Tel: +354 515 1300**

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 and prosthetics, 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 an industry record of 6-8 percent 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.