

Ossur First Quarter Report for 2006



Life Without Limitations

Reykjavik, 3 May 2006
Ossur hf. press release

First quarter highlights

- Sales USD 60.0 million, up by 93% measured in USD
- Organic sales growth 12%
- Pro forma sales growth 11%
- One-time unusual expenses due to the acquisition of Innovation Sports, Inc. USD 3 million
- Amortization of intangible assets relating to recent acquisitions USD 2.9 million
- EBITDA USD 11.6 million, excluding one-time unusual expenses, up by 110%
- EBITDA ratio 19.3%, excluding one-time unusual expenses, up from 17.8% from the first quarter of 2005
- Net profit USD 4.1 million, excluding one-time unusual expenses and amortization of intangible assets, up by 30%. Net profit USD 571 thousand without adjustments for unusual expenses and amortization of intangible assets.
- Earnings per share 1.07 US cents, excluding one-time unusual expenses and amortization of intangible assets, up by 6%. Earnings per share 0.15 US cents without adjustments for unusual expenses and amortization of intangible assets.

Jon Sigurdsson, President & CEO, comments:

"I am satisfied with these results. They are in the upper range of management's guidance although impacted by unusual expenses relating to the major acquisitions we have completed since July last year. Integration and restructuring is proceeding according to plans and we are beginning to experience projected synergies, although they will first have a significant impact in 2007. We are moving steadily towards our vision of becoming a leader in the orthopaedic industry. We realized ambitious organic growth in the prosthetic sector while at the same time acquiring a significant market position in the bracing and support sector, which now accounts for well over 50% of our sales. Our technological leadership was clearly demonstrated by the launch of the breakthrough bionic Power Knee and Proprio Foot products. Our vision and strategy are clear. We will continue improving our existing operations as well as exploring external opportunities to reach our goals."

First quarter operating results

Following are the principal operating results of the first quarter of 2006. A special account is given of the impact of one-time unusual expenses relating to the acquisition of Innovation Sports, Inc. which was completed 18 January 2006. Innovation Sports specializes in the design and manufacturing of ligament braces and as such further strengthens the Company's position in the bracing and support sector of the orthopaedic market.

Income Statement Q1 2006 (USD '000)	Q1 2006	Adjust. un. exp. & amort.	Q1 excl. un. exp.	% of sales	Q1 2005	% of sales	Change
Net sales	60,034		60,034	100%	31,150	100%	93%
Cost of goods sold	-24,078		-24,078	-40%	-12,501	-40%	93%
Gross profit	35,956		35,956	60%	18,649	60%	93%
Other income	54		54	0%	76	0%	-29%
Sales & marketing expenses	-16,009	1,632	-14,337	-24%	-6,993	-22%	129%
Research & development expenses	-4,699	991	-3,708	-6%	-2,435	-8%	93%
General & administrative expenses	-8,542	232	-8,310	-14%	-4,896	-16%	74%
Restructuring expenses	-3,000	3,000	0	0%	0	0%	
Profit from operations	3,760		9,615	16%	4,401	14%	54%
Financial income / (expenses)	-4,921		-4,921	-8%	-411	-1%	1097%
Profit/(loss) before tax	-1,161		4,694	8%	3,990	13%	-54%
Income tax	1,732	-2,311	-579	-1%	-817	-3%	-166%
Net profit for the period	571		4,115	7%	3,173	10%	-25%
EBITDA	8,594		11,594	19%	5,533	18%	110%

Sales during the quarter amounted to just over USD 60 million, representing an increase of 93% from the first quarter of 2005, measured in USD. Growth measured in local currency amounted to 96%. Organic growth amounted to 12%, fulfilling the Company's goal of a high single digit to low double digit organic growth. The pro forma sales growth, including Royce Medical, Innovation Sports and IMP, was 11%. The impact of foreign exchange rate trends was negative by over USD 1 million, representing 1.7% of total sales. This effect is primarily due to a strengthening of both the euro and Swedish krona against the US dollar.

Product groups

Sales of bracing and support products accounted for USD 32.7 million, representing over 54% of total sales and an increase of 355% from the previous year. The division of sales between the prosthetics and braces and support sectors was as follows:

USD '000	Q1 2006	Q1 2005	Change
Prosthetics	26,892	23,722	13%
Braces & Support	32,692	7,183	355%
Other	450	245	84%
Total	60,034	31,150	93%

Market regions

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

USD '000	Q1 2006	Q1 2005	Change in USD	Change in LCY
North America	36,488	16,201	125%	124%
Europe (excl. Nordic countries)	14,773	8,339	77%	86%
The Nordic countries	4,952	4,742	4%	14%
Other markets	3,821	1,868	104%	104%
Total	60,304	31,150	93%	96%

Growth remained strong in North America, the consolidation's largest market, with sales up by 125% from the first quarter of 2005. Organic growth was just over 15%.

Sales growth in the European market was 51%, measured in US dollars and 60% measured in local currency. Organic growth amounted to around 11% measured in local currency.

The quarter was favorable for the International Division, which grew 104% from the first quarter of 2005.

Gross profit amounted to just short of 60% of sales, unchanged from the first quarter of 2005. The gross profit margin of organic operations remains unchanged. The positive effect of Royce Medical's higher gross profit margin is offset by the lower gross profit margin of IMP and Innovation Sports.

Operating expenses

Amortization of intangible assets relating to the acquisition of Royce Medical, IMP and, most recently, Innovation Sports, continues to have a significant impact on profit from operations and net profit for the period, even though it does not affect cash flow and EBITDA. The amortization in the first quarter amounted to USD 2.9 million, reducing the ratio of operating profit to sales by 4.8 percentage points and net profit to sales by 2.9 percentage points. The amount is allocated to individual operating items as follows:

Expense item	Amount in USD million	Ratio of amortization to sales
Sales and marketing expenses	1.63	2.7%
Research & development expenses	0.99	1.7%
General & administrative expenses	0.23	0.4%
Total	2.85	4.8%

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

Sales and marketing expenses increased significantly, to 26.7% of sales compared to 22.4% in the first quarter of 2006. The change corresponds to 4.3 percentage points, of which 2.7 result from the amortization of intangible assets. Sales and marketing expenses at Royce were higher than at Ossur, which is the principal explanation for the remaining increase.

Research and development expenses amounted to 7.8% of sales, which is the same as in the first quarter of 2005. Excluding the change in the ratio resulting from intangible assets, the ratio fell from 7.8% of sales to 6.1%. The strengthening of the US dollar against the Icelandic krona has a positive effect on development costs, as the greatest proportion of Ossur's development work is conducted in Iceland. Additionally, the development cost ratio of acquired companies was considerably lower than historically at Ossur. All research and development costs continue to be expensed.

General and administrative expenses were 14.2% of sales, as compared to 15.7% in the first quarter of 2005. Exchange rate trends had a positive effect on this item, as the Company's headquarters are located in Iceland. Additionally, increased operating efficiency relating to economics of scale is starting to be realized.

Other expenses

In addition to the amortization of intangible assets resulting from acquisitions, USD 3 million one-time restructuring expenses were incurred. These include approximately USD 0.74 million of sales and marketing and general and administrative expenses relating to integration as well as approximately USD 2.26 million relating to the restructuring of the US bracing and support operations, including the lay-off of over 80 employees. The one-time restructuring expenses relating to the acquisitions undertaken from July 2005 to January 2006 are projected to return an annual operating efficiency of up to USD 8 million from 2007.

Net financial expenses amount to over USD 4.9 million, including USD 3.5 interest on bank loans and USD 1.3 million of exchange rate differences. Interest on bank loans increased by 897% from the first quarter of 2005, representing the significant increase in the Company's leverage. The Company's equity ratio is 35%, down from 54% at the end of the first quarter of 2005. Exchange rate differences are mainly due to the effect of the strengthening of the euro against the US dollar on the euro portion of the Company's long term liabilities.

Income tax

Significant tax deductions relating to recent acquisitions, as well as deductions relating to the internal financing structure of the Company, result in the unusually positive tax effect in the first quarter.

Profit ratios

Looking past the one-time unusual expenses and amortization of newly acquired intangibles, all principal operating ratios were satisfactory.

The ratio of EBITDA to sales, excluding one-time unusual expenses, was 19.3% in the first quarter, as compared to 17.8% in the first quarter of 2005. This improvement is a success considering the initial cost increase resulting from the rapid growth. The effect of one-time expenses on the EBITDA ratio is a decline by 5 percentage points.

Operating profit, net of one-time expenses and amortization of intangibles, amounted to 16% of sales, as compared to 14% in 2005. The effect of one-time expenses on operating profit is a decline by 5 percentage points and the effect of amortization of intangibles is a decline by 4.8 percentage points.

Net profit, excluding one-time expenses and amortization of intangibles, was USD 4.1 million or 6.9% of sales. Net profit for the first quarter of 2005 was USD 3.2 million or 10% of sales. The effect of one-time expenses on net profit is a decline by 3 percentage points and the effect of amortization of intangibles is a decline by 2.9 percentage points. Additionally, the increased Company leverage and exchange rate trends have also had a negative impact on net profit.

Balance sheet

Consolidated Balance Sheet (USD '000)	31 March 2006	31 December 2005	Change
Fixed assets	363,261	325,873	11%
Current assets	71,966	82,113	-12%
Total assets	435,227	407,986	7%
Stockholders' equity	154,027	152,829	1%
Long-term liabilities	233,189	215,361	8%
Current liabilities	48,011	39,796	21%
Total equity and liabilities	435,227	407,986	7%

The equity ratio at the end of the first quarter was 35%, as compared to 37% at year end 2005 and 54% at the end of the first quarter of 2005. The acquisition of Innovation Sports was partly financed by existing cash and partly by a USD 40 million increase in the Company's main loan facility, of which USD 20 million are undrawn and available.

As previously mentioned, the strengthening of the euro against the USD had a negative effect on the Company's long term liabilities. Out of the USD 220 million term loan, 30% have been drawn in euros, while 70% are in US dollars. These negative effects represent the difference in spot exchange rates from the end of 2005 to the end of the first quarter of 2006 and could be reversed by future market changes.

Cash flow

Cash Flow (USD '000)	Q1 2006	Q1 2005
Working capital from operating activities	5,026	4,980
Net cash from operating act., excl. interest and taxes	6,076	2,377
Investing activities	-41,711	-1,373
Net cash provided from financing activities	23,703	-1,134
Net change in cash and cash equivalents	-16,811	-1,254

Net cash provided by operating activities amounted to USD 6,076 million, as compared to 2,377 million in the first quarter of 2005. The increase corresponds to 156%.

Financial ratios

Financial Ratios	Q1 2006	Q1 2005
EPS (US cents)	0.15	1.01
EPS, excluding one-time unusual expenses (US cents)	0.62	1.01
EPS, excluding one-time unusual expenses and amortization of intangible assets (US cents)	1.07	1.01
P/E ratio LTM	69.0	28.9
P/E ratio LTM, excluding one-time unusual expenses and amortization of intangible assets (US cents)	24.6	28.9
Return on common equity	9%	29%
Current ratio	1.5	2.6
Equity ratio	35%	54%
Market value of stock (million USD)	627	438

Earnings per share, excluding one-time unusual expenses resulting from acquisitions, amounted to 0.62 US cents in the first quarter. The net effect of amortization of intangible assets relating to the acquisition of Royce Medical, IMP

and Innovation Sports on earnings per share is a decrease from 1.07 to 0.62 US cents per share. Additionally, when assessing earnings per share, the effect of the significant change in leverage must be considered.

Five year comparison

Five Year Comparison	Q1 2006	Q1 2005	Q1 2004	Q1 2003	Q1 2002
Net sales	60,034	31,150	30,668	21,692	18,593
Profit from operations	3,760	4,401	4,546	1,970	1,542
Financial income / (expenses)	-4,921	-411	-278	-126	-323
Profit (loss) before tax	-1,161	3,990	4,268	1,844	1,275
Net profit	571	3,173	3,263	1,404	1,031
Stockholders' equity	154,027	57,382	46,068	41,562	31,044
Total assets	435,227	106,007	105,699	72,729	61,281
Working capital provided by operating activities	5,026	4,980	5,347	2,171	1,989
Net cash provided by operating activities	1,197	1,253	2,044	686	-443
Return on common equity LTM	9%	29%	15%	29%	32%
Current ratio	1.5	2.6	2.2	2.2	1.7
Equity ratio	35%	54%	44%	57%	51%
Earnings per share (EPS) LTM	2.61	4.79	2.03	3.23	2.75
Price per share end of quarter (ISK)	115.5	83.5	49.8	47.5	47.3
Market value end of quarter (USD million)	627	438	225	204	156

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, increase in lifestyle diseases and more wealthy and active seniors; emerging markets; added patent benefits and increased product performance. Ossur has an attractive market position and there are significant opportunities for further consolidation of the market. The Company's technological leadership along with an increasing product assortment and customer base further enhance the prospects for success.

The short term projections for operations in 2006 and 2007 remain positive. The significant one-time restructuring expenses relating to the acquisitions undertaken from July 2005 to January 2006 are projected to return an annual operating efficiency of up to USD 8 million from 2007. In 2006, it is estimated that Ossur's sales will exceed USD 250 million, with EBITDA excluding unusual expenses at approximately 20%.

As previously communicated, Ossur has set the goal of achieving sales of USD 750 million before the end of 2010 and an EBITDA ratio of 23%. This goal will be achieved through powerful organic growth in combination with strategic acquisitions.

First quarter acquisitions

On 18 January, Ossur acquired Innovation Sports, Inc. for USD 38.4 million. Innovation Sports specializes in the development and manufacturing of ligament braces.

On 1 February 2006, Ossur acquired Rigid Medical Technologies for USD 715 thousand. Rigid Medical specializes in stock and bill services for hospital emergency rooms.

Products and Trade Shows

In early March, Ossur participated in the AAOP (The American Academy of Orthotists & Prosthetists) trade show in Chicago. Ossur introduced the breakthrough Bionic Technology for the first time at a major trade show, including the latest bionic product, the Proprio foot which will be launched in the second quarter. The show was successful for Ossur with over 1000 certified O&P professionals attending.

In March, Ossur participated in the AAOS (American Association of Orthopaedic Surgeons) trade show in Chicago. This was the launching pad for the new Ossur Brand being introduced to orthopaedic surgeons. Feedback from the market and distributors indicates that Ossur has succeeded in achieving the market impact intended to this new customer segment.

New bracing and support products launched in the first quarter include the SmartSling shoulder sling and the Unloader®One custom made knee brace.

SmartSling was designed to fulfil three fundamental objectives: versatility, comfort, and ease of application. SmartSling's dynamic 3-in-1 design provides abduction, external rotation and/or immobilization, resulting in reduced stocking and inventory management costs.

Unloader®One is a complete redesigned version of the Unloader brace, incorporating new technologies for unrivalled performance. It is lightweight, comfortable and easy to get on and off, and is the ultimate in pain relief for osteoarthritis (OA) sufferers. The UnloaderOne brace has 30-50% more unloading power than the original Unloader, with only half the weight.

Approval of Financial Statements

The Ossur hf. Annual Consolidated Financial Statement for the first 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 Thursday, May 4th, Ossur will host briefings for investors.

At 8:15 a.m. GMT, there will be an open meeting with Company management at the Grand Hotel at Sigtún in Reykjavík. At the meeting, Jón Sigurdsson, President and CEO, and Hjorleifur Palsson, CFO, will present and discuss the operations of the quarter.

A telephone conference in English will be held 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.

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:

Second quarter	31 July 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

About Ossur

Ossur OSSR
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

Forward-Looking Statements
This press release includes "forward-looking statements" including expectations about the anticipated benefits of the Innovation Sports acquisition, 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.