

# Össur hf.

---

Consolidated Financial Statements

---

**December 31st 2009**

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

---

# Össur hf.

---

Consolidated Financial Statements

---

December 31st 2009

## Table of Contents

Report by the Board of Directors and President and CEO	2
Financial Ratios	4
Independent Auditors Report	5
Consolidated Income Statements	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Financial Position	8
Consolidated Statements of Cash Flows	10
Consolidated Statements of Changes in Equity	11
Notes to the Consolidated Financial Statements	12
Appendix I - Unaudited information	44

---

# Statement by the Board of Directors and President and CEO

---

It is the opinion of the Board of Directors and the President and CEO of Össur hf., that these Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at year-end, the operating results for the year and financial developments during the year 2009. Össur Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Icelandic and Danish disclosure requirements for listed companies.

Össur hf. designs, manufactures and sells orthopaedic products specializing in prosthetics, bracing and support and compression therapy solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States, Canada, France, the Netherlands, the UK, Sweden, Norway, Spain, Swiss, China and Australia. The Company sells its products world wide, but the principal market areas are North America and Europe.

The total sales of the Össur Consolidation amounted to USD 330.6 million, compared to USD 346.8 million in the preceding year. This represents a decline in sales of approximately 4.7%. Net profit amounted to USD 22.8 million compared to USD 28.5 million in 2008. Diluted Earnings per Share amounted to US cents 5.3 compared to US cents 6.73 in 2008. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 67.0 million compared to USD 79.4 million in the preceding year.

The total assets of the Össur Consolidation amounted to USD 628.2 million at year-end, liabilities were 316.0 million, and equity was 312.2 million. The equity ratio at year-end was 50%, compared to 41% the preceding year.

In the course of the year the Company employed on average 1,532 employees.

The market value of the Company at year-end was 529 million USD and increased by 51.5% over the year. At year-end, shareholders in Össur hf. numbered 2,524 compared to 2,586 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: William Demant Invest A/S, with 37.2% and Eyrir Invest ehf. with 18.8%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company and the Board of Directors' Rules of Procedure. The rules comply with the guidelines on Corporate Governance issued by the NASDAQ OMX Iceland, the Iceland Chamber of Commerce and the Confederation of Icelandic Employers. The Rules of Procedure address issues such as allocation of responsibilities and power of decision within the Board, independency issues, confidentiality etc. An Audit Committee and a Remuneration Committee are present within the Board. No Össur employees are sitting on the Board of Directors

The Board of Directors does not recommend payment of dividends to shareholders in 2010. As regards to changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

# Statement by the Board of Directors and President and CEO

---

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2009 with their signatures.

Reykjavik, 3 February 2010

## Board of Directors

Niels Jacobsen  
Chairman of the Board

Arne Boye Nielsen

Kristjan T. Ragnarsson

Thordur Magnusson

Svafa Gronfeldt

## President and CEO

Jon Sigurdsson

# Financial Ratios

## Consolidated statement

		2009	2008	2007	2006	2005
<b>Income Statement</b>						
Net sales <sup>1</sup>	USD '000	330,580	346,835	331,966	248,653	159,827
Gross profit <sup>1</sup>	USD '000	201,815	214,203	192,033	154,797	94,771
Operating expenses <sup>2</sup>	USD '000	154,071	167,678	171,160	127,130	75,697
Profit from operations	USD '000	48,240	55,958	39,716	19,743	16,525
Net profit	USD '000	22,762	28,488	7,580	4,360	11,688
EBITDA	USD '000	66,988	79,440	64,392	39,493	25,832
<b>Balance sheet</b>						
Total assets	USD '000	628,217	603,778	635,821	612,752	407,986
Equity	USD '000	312,223	249,648	250,282	161,639	152,829
Net interest-bearing debt (NIBD)	USD '000	157,633	234,281	283,106	350,252	175,281
<b>Cash flow</b>						
Working capital from operating activities	USD '000	44,473	58,070	43,991	24,663	18,954
Cash provided by operating activities	USD '000	69,155	52,835	45,701	15,988	15,481
Cash flows from investing activities	USD '000	(16,423)	(6,648)	(17,781)	(179,052)	(249,659)
Cash flows from financing activities	USD '000	(4,284)	(30,610)	(25,289)	154,197	250,923
Free Cash flow	USD '000	58,629	46,187	38,762	6,352	8,791
<b>Key figures</b>						
Sales Growth	%	(4.7)	4.5	33.5	55.6	28.4
Operating margin	%	14.6	16.0	12.0	8.0	10.3
EBITDA margin	%	20.3	22.9	19.4	15.9	16.2
Equity ratio	%	49.7	41.3	39.4	26.4	37.5
Ratio of net debt to EBITDA		2.4	2.9	4.4	8.9	6.8
Current ratio		2.3	1.1	0.9	0.6	2.1
Return on equity	%	8.1	11.0	4.0	3.0	14.9
Employees	Number	1,532	1,587	1,617	1,190	680
<b>Market</b>						
Market value of equity <sup>3</sup>	USD '000	529,151	349,263	672,024	605,572	695,125
Number of shares	Millions	454	423	423	385	385
Price/earnings ratio, (P/E)		23.2	12.3	88.7	138.9	59.5
Diluted EPS	US Cent	5.30	6.73	1.94	1.13	3.52
Diluted Cash EPS	US Cent	9.66	12.29	8.24	6.27	6.33

## Notes

1. Distribution costs and revenues to/from customers have been reclassified to sales and marketing expenses years 2005 to 2008 to align with 2009 method of reporting.
2. Excluding other income and restructuring expenses.
3. Market value based on last trade at 30.12.2009 on Nasdaq OMX, Iceland and Denmark.

# Independent Auditor's Report

---

To the Board of Directors and shareholders of Össur hf.

We have audited the accompanying Consolidated Financial Statements of Össur hf., which comprise the balance sheet at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and additional Icelandic disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, based on our own audit and the audit reports on the Consolidated Financial Statements of the foreign subsidiaries of Össur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Össur hf. and subsidiaries as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies.

Kopavogur, 3 February 2010

**Deloitte hf.**

Sigurður Pall Hauksson  
State Authorized Public Accountant

Thorsteinn Petur Gudjonsson  
State Authorized Public Accountant

# Consolidated Income Statements for the years 2009 and 2008

	Notes	2009	2008	Unaudited	
				2009 Q4	2008 Q4
<b>Net sales</b>	5	330,580	346,835	87,871	79,440
Cost of goods sold .....		<u>(128,765)</u>	<u>(132,632)</u>	<u>(34,863)</u>	<u>(30,429)</u>
<b>Gross profit</b>		201,815	214,203	53,008	49,011
Other income .....	7	496	9,433	131	(49)
Sales and marketing expenses .....		(92,567)	(97,812)	(23,451)	(22,863)
Research and development expenses .....		(19,080)	(20,930)	(5,132)	(5,027)
General and administrative expenses .....		<u>(42,424)</u>	<u>(48,936)</u>	<u>(10,834)</u>	<u>(10,257)</u>
<b>Profit from operations</b>		48,240	55,958	13,722	10,815
Financial income .....		254	864	69	639
Financial expenses .....		(15,587)	(18,303)	(4,073)	(3,987)
Net exchange rate difference .....		<u>(2,670)</u>	<u>(286)</u>	<u>793</u>	<u>(2,621)</u>
Net financial income / (expenses)	10	<u>(18,003)</u>	<u>(17,725)</u>	<u>(3,211)</u>	<u>(5,969)</u>
<b>Profit before tax</b>		30,237	38,233	10,511	4,846
Income tax .....	11	<u>(7,475)</u>	<u>(9,745)</u>	<u>(2,437)</u>	<u>(675)</u>
		-24.7%	-25.5%	-23.2%	-13.9%
<b>Net profit</b>		<u>22,762</u>	<u>28,488</u>	<u>8,074</u>	<u>4,171</u>
		Attributable to:			
Owners of the Company .....		22,706	28,488	8,018	4,171
Non-controlling interests .....		<u>56</u>	<u>0</u>	<u>56</u>	<u>0</u>
		<u>22,762</u>	<u>28,488</u>	<u>8,074</u>	<u>4,171</u>
<b>Earnings per Share</b>	12				
Basic Earnings per Share .....		<u>5.32</u>	<u>6.74</u>	<u>1.83</u>	<u>0.99</u>
Diluted Earnings per Share .....		<u>5.30</u>	<u>6.73</u>	<u>1.80</u>	<u>0.99</u>

# Consolidated Statements of Comprehensive Income for the years 2009 and 2008

	Notes	2009	2008	Unaudited	
				2009 Q4	2008 Q4
<b>Net profit</b>		22,762	28,488	8,074	4,171
<b>Other comprehensive income</b>					
Gain / (loss) on hedge of a net investment in foreign operations .....		(1,216)	1,473	902	7,170
Loss on cash flow hedges .....		(521)	(10,124)	(99)	(8,009)
Transl. difference of shares in foreign operations.....		10,775	(22,029)	(3,286)	(18,476)
Income tax relating to components of other comprehensive income .....		313	1,298	70	279
Other comprehensive income (net of tax).....		9,351	(29,382)	(2,413)	(19,036)
<b>Total comprehensive income</b>		<u>32,113</u>	<u>(894)</u>	<u>5,661</u>	<u>(14,865)</u>
	Attributable to:				
Owners of the Company .....		32,057	(894)	5,605	(14,865)
Non-controlling interests .....		56	0	56	0
		<u>32,113</u>	<u>(894)</u>	<u>5,661</u>	<u>(14,865)</u>



# Consolidated Statements of Financial Position

## Assets

	Notes	31.12.2009	31.12.2008
<b>Non-current assets</b>			
Property, plant and equipment .....	14	32,286	32,927
Goodwill .....	15	334,844	322,381
Other intangible assets .....	16	35,382	45,175
Other financial assets .....	18	3,567	1,156
Deferred tax asset .....	29	42,367	61,563
		<u>448,446</u>	<u>463,202</u>
<b>Current assets</b>			
Inventories .....	21	43,526	55,818
Accounts receivables .....	22	43,693	43,821
Other assets .....	22	10,413	10,031
Assets classified as held for sale .....	19	2,308	0
Bank balances and cash .....	20	79,831	30,906
		<u>179,771</u>	<u>140,576</u>
<b>Total assets</b>		<u><u>628,217</u></u>	<u><u>603,778</u></u>

## 31 December 2009 and 2008

### Equity and liabilities

	Notes	31.12.2009	31.12.2008
<b>Equity</b>			
Issued capital .....	23	201,997	172,902
Reserves .....	24	5,582	(4,257)
Retained earnings .....	25	103,647	81,003
		<u>311,226</u>	<u>249,648</u>
Non-controlling interest in equity .....		997	0
<b>Total equity</b>		<u>312,223</u>	<u>249,648</u>
<b>Non-current liabilities</b>			
Borrowings .....	27	210,282	183,117
Deferred tax liabilities .....	29	11,024	27,076
Provisions .....	30	5,744	3,575
Other financial liabilities .....	28	9,995	9,474
		<u>237,045</u>	<u>223,242</u>
<b>Current liabilities</b>			
Borrowings .....	27	27,182	82,070
Accounts payable .....		13,353	13,593
Taxes payable .....		2,452	1,434
Provisions .....	30	2,686	7,659
Other liabilities .....	32	33,276	26,132
		<u>78,949</u>	<u>130,888</u>
<b>Total equity and liabilities</b>		<u><u>628,217</u></u>	<u><u>603,778</u></u>

# Consolidated Statements of Cash Flows for the years 2009 and 2008

	Notes	2009	2008
<b>Cash flows from operating activities</b>			
Profit from operations .....		48,240	55,958
Depreciation and amortization .....	14, 16	18,748	23,482
Gain on disposal of assets .....		531	40
Change in provisions .....		(2,811)	1,369
Changes in operating assets and liabilities .....		21,062	(9,389)
<b>Cash generated by operations</b>		<u>85,770</u>	<u>71,460</u>
Interest received .....		302	283
Interest paid .....		(10,570)	(16,948)
Taxes paid .....		<u>(6,347)</u>	<u>(1,960)</u>
<b>Net cash provided by operating activities</b>		<u>69,155</u>	<u>52,835</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets .....	14, 16	(9,679)	(7,754)
Proceeds from sale of fixed assets .....		762	959
Acquisition of subsidiaries .....		(5,897)	0
Changes in financial assets .....		<u>(1,609)</u>	<u>147</u>
		<u>(16,423)</u>	<u>(6,648)</u>
<b>Cash flows from financing activities</b>			
Repayments of short-term borrowings .....		(7,493)	(14,271)
Repayments of long-term borrowings .....		(25,912)	(15,943)
Paid in capital .....	23	<u>29,121</u>	<u>(396)</u>
		<u>(4,284)</u>	<u>(30,610)</u>
<b>Net change in cash</b> .....		48,448	15,577
<b>Effects of foreign exchange rate adjustments</b> .....		477	(560)
<b>Cash at beginning of year</b> .....		<u>30,906</u>	<u>15,889</u>
<b>Cash at end of year</b> .....		<u><u>79,831</u></u>	<u><u>30,906</u></u>
Additional information regarding cash flow .....	13		

## Consolidated Statements of Changes in Equity for the years 2009 and 2008

	Share capital	Share premium	Statutory reserve	Stock option reserve	Hedging reserve	Translation reserve	Accumulated profits	Attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 2008.....	4,821	168,477	1,043	332	552	22,379	52,677	250,281		250,281
Net profit.....							28,488	28,488		28,488
Gain on hedge of a net investment in foreign operations net of tax.....						1,252		1,252		1,252
Loss on cash flow hedges net of tax.....					(8,605)			(8,605)		(8,605)
Translation difference of shares in foreign operations....						(22,029)		(22,029)		(22,029)
Total comprehensive income for the period.....	0	0	0	0	(8,605)	(20,777)	28,488	(894)	0	(894)
Cost due to increasing capital.....		(396)						(396)		(396)
Share option charge for the period.....				657				657		657
Transferred to statutory reserves.....			162				(162)	0		0
Balance at 31 December 2008.....	4,821	168,081	1,205	989	(8,053)	1,602	81,003	249,648	0	249,648
Net profit.....							22,706	22,706	56	22,762
Loss on hedge of a net investment in foreign operations net of tax.....						(997)		(997)		(997)
Loss on cash flow hedges net of tax.....					(427)			(427)		(427)
Translation difference of shares in foreign operations....						10,775		10,775		10,775
Total comprehensive income for the period.....	0	0	0	0	(427)	9,778	22,706	32,057	56	32,113
Share option charge for the period.....				426				426		426
Arising on acquisition.....								0	941	941
Paid in share capital.....	247	28,848						29,095		29,095
Transferred to statutory reserves.....			62				(62)	0		0
Balance at 31 December 2009.....	5,068	196,929	1,267	1,415	(8,480)	11,380	103,647	311,226	997	312,223

# Notes to the Consolidated Financial Statements

---

## 1. General information

Össur hf. (the Company) is a global orthopaedics company, specializing in the development, manufacturing and sales of prosthetics, bracing 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 subsidiaries in the United States, Canada, Sweden, Norway, the Netherlands, UK, France, Australia, Spain, Swiss and China in addition to the Iceland-based parent company.

The main production of the Company is conducted at Össur hf. in Iceland, Gibaud Group (La Tour Finance) in St. Etienne, Trevoux in France and at Össur Americas in California USA. Part of the production is outsourced to Asia.

According to the Company's organizational structure, the consolidation is divided into four main functions; Corporate Finance, responsible for overall financial management; Manufacturing & Operations, responsible for quality control and all production, inventory management and distribution; Research & Development, responsible for product development and product management; Sales & Marketing responsible for sales and marketing through the subsidiaries.

## 2. Adoption of new and revised Standards

### 2.1 Standards and interpretations effective in the current and prior periods

The Consolidated Financial Statements is presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in 2009. The standards and interpretations relevant to the Company are:

IFRS 2 (revised) - Share based payment, IFRS 7 (revised) - Financial Instruments: Disclosures, IFRS 8 - Operating Segments, IAS 1 (revised) - Presentation of Financial Statements, IAS 23 (revised) - Borrowing Costs, IAS 32 (revised) - Financial Instruments Presentation, IFRIC 13 - Customer loyalty programmes, IFRIC 16 - Hedges of Net Investments in Foreign Operation.

The adoption of the new and revised standard and interpretations has not led to material changes in the accounting policies.

### 2.2 Standards not yet effective

New and revised standards and interpretations have also been approved but are not yet effective. Management believe that implementation of those standards and interpretations do not have a material affect on the Consolidated Financial Statements of the Company. Following is an overview of those management believe are relevant for the Company.:

IFRS 2 (revised) - Share-based Payment (effective for accounting periods beginning on or after 1 January 2010)  
IFRS 3 (revised) - Business combinations (effective for accounting periods beginning on or after 1 July 2009)  
IAS 27 (revised) - Consolidated and separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009)  
IAS 32 (revised) - Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 February 2009)  
IAS 39 (revised) - Financial Instruments: Recognition and measurement (effective for accounting periods beginning on or after 1 July 2009)

## 3. Summary of Significant Accounting Policies

### 3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic and Danish disclosure requirements for Consolidated Financial Statements for listed companies.

### 3.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The Financial Statements are presented in USD, which is the Company's functional currency. The principal accounting policies are set out below.

# Notes to the Consolidated Financial Statements

---

## 3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## 3.4 Business Combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition (purchase) method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Company of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the purchase price of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

## 3.5 Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Consolidated Financial Statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Company, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

# Notes to the Consolidated Financial Statements

---

## 3.6 Goodwill

Goodwill arising in a business combination represents the excess of the purchase price over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

## 3.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied; the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

### Interest revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## 3.8 Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

# Notes to the Consolidated Financial Statements

---

## 3.9 Foreign currencies

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for each quarter within the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Exchange differences are recognised in profit or loss in the period, except exchange differences relating to hedge of a net investment in foreign operations.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 3.11 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 3.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Consolidated Company's current tax liability is calculated using the tax rates for each country.

### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



# Notes to the Consolidated Financial Statements

---

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions are eliminated. This has an effect on the income tax expenses of the consolidated companies, and an adjustment is included in the deferred tax asset. Income tax expense is calculated in accordance with tax rates in the countries where the inventories originate.

## 3.13 Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognised as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## 3.14 Intangible assets

### Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

# Notes to the Consolidated Financial Statements

---

## **Internally-generated intangible assets - research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development is recognised only if all of the following conditions are met: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## **Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## **3.15 Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## **3.16 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a standard cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

# Notes to the Consolidated Financial Statements

---

## 3.17 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Restructurings

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has started to implement it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Company's obligation.

## 3.18 Risk management

Financial risk management is governed by the Company's Financial Risk Management Policy, approved by the Board of Directors. The policy sets limits to the extent of financial risks and guidelines for financial transactions in general. The general policy is to apply natural currency hedging to the extent possible and prohibit any speculative trading of financial instruments.

Long term financing is managed from the Company's Corporate Finance function and individual subsidiaries do not engage in substantial external financing contracts with banks and/or credit institutions.

The Company is outset for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

## 3.19 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

# Notes to the Consolidated Financial Statements

---

## **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

## **Financial assets at fair value through profit or loss**

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

## **Loans and receivables**

Account receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## **Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as account receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the companies average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## **3.20 Financial liabilities**

Financial liabilities are classified as either financial liabilities at 'fair value through profit and loss' or 'other financial liabilities'.

### **Financial liabilities at fair value through profit or loss**

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income.

# Notes to the Consolidated Financial Statements

---

## **Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

## **Derecognition of financial liabilities**

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

## **3.21 Derivative financial instruments**

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 33.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## **Hedge accounting**

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The hedging reserve within equity represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Note 28 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 24.

## **Hedges of net investments in foreign operations**

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

# Notes to the Consolidated Financial Statements

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Determining whether goodwill is impaired requires an estimations of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

As described at 3.15 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

## 5. Net sales

Specified according to geographical segments:

	2009	2008
Americas.....	159,278	160,353
EMEA.....	156,906	173,627
Asia.....	14,396	12,855
	<u>330,580</u>	<u>346,835</u>

Specified according to product lines:

Prosthetics.....	148,513	142,943
Bracing and supports.....	161,732	178,755
Compression Therapy (Phlebology).....	18,159	20,082
Other products.....	2,176	5,055
	<u>330,580</u>	<u>346,835</u>

Specified according to currency:

US Dollar, USD.....	159,080	166,217
Euro, EUR.....	115,954	116,557
British Pound, GBP.....	17,953	24,630
Canadian dollar, CAD.....	13,921	15,060
Swedish Krona, SEK.....	11,326	12,111
Norwegian Krona, NOK.....	6,708	6,559
Australian Dollar, AUD.....	2,857	2,258
Icelandic Krona, ISK.....	951	1,791
Other.....	1,830	1,653
	<u>330,580</u>	<u>346,835</u>

# Notes to the Consolidated Financial Statements

## 6. Geographical segments

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

2009	Americas	EMEA	Asia	Eliminations	Consolidated
	2009	2009	2009	2009	2009
<b>Revenue</b>					
External sales.....	159,278	156,906	14,396	0	330,580
Inter-segment sales.....	19,260	60,542	0	(79,802)	0
Total revenue.....	<u>178,538</u>	<u>217,448</u>	<u>14,396</u>	<u>(79,802)</u>	<u>330,580</u>

Inter-segment sales are calculated from production cost.

### Result

Segment result.....	<u>24,201</u>	<u>19,096</u>	<u>4,943</u>	<u>0</u>	48,240
Financial income/(expenses).....					<u>(18,003)</u>
Profit before tax.....					30,237
Income tax.....					<u>(7,475)</u>
Net profit.....					<u>22,762</u>

### Other information

Capital additions.....	1,856	7,668	155	0	9,679
Depreciation and amortization.....	9,374	9,178	196	0	18,748

### Balance sheet

	31.12.2009	31.12.2009	31.12.2009	31.12.2009	31.12.2009
<b>Assets</b>					
Segment assets.....	429,724	1,034,923	8,378	(844,808)	<u>628,217</u>
<b>Liabilities</b>					
Segment liabilities.....	308,668	588,956	8,469	(590,099)	<u>315,994</u>

# Notes to the Consolidated Financial Statements

2008	Americas 2008	EMEA 2008	Asia 2008	Eliminations 2008	Consolidated 2008
<b>Revenue</b>					
External sales.....	160,353	173,627	12,855	0	346,835
Inter-segment sales.....	26,712	75,787	0	(102,498)	0
Total revenue.....	<u>187,064</u>	<u>249,414</u>	<u>12,855</u>	<u>(102,498)</u>	<u>346,835</u>
<b>Result</b>					
Segment result.....	<u>21,892</u>	<u>30,612</u>	<u>3,454</u>	<u>0</u>	55,958
Financial income/(expenses).....					<u>(17,725)</u>
Profit before tax.....					38,233
Income tax.....					<u>(9,745)</u>
Net profit.....					<u>28,488</u>
<b>Other information</b>					
Capital additions.....	2,073	5,184	497	0	7,754
Depreciation and amortization.....	13,533	9,887	62	0	23,482
<b>Balance sheet</b>					
	<u>31.12.2008</u>	<u>31.12.2008</u>	<u>31.12.2008</u>	<u>31.12.2008</u>	<u>31.12.2008</u>
<b>Assets</b>					
Segment assets.....	406,532	926,189	4,245	(733,188)	<u>603,778</u>
<b>Liabilities</b>					
Segment liabilities.....	295,042	553,895	6,353	(501,160)	<u>354,130</u>



# Notes to the Consolidated Financial Statements

## 7. Other income

Included in other income in 2008 is a gain amounting to 8.4 million USD related to sale of the Advanced Wound Care product line to BSN medical GmbH, a leading global provider of wound care products.

## 8. Salaries

Salaries and salary-related expenses, paid by the consolidation, are specified as follows:

	2009	2008
Salaries .....	76,714	85,273
Salary-related expenses .....	27,110	27,751
	<u>103,824</u>	<u>113,023</u>

Average number of positions .....	1,532	1,587
-----------------------------------	-------	-------

Salaries and salary-related expenses, classified by operational category, are specified as follows:

	2009	2008
Cost of goods sold .....	37,285	41,525
Sales and marketing .....	41,838	43,826
Research and development.....	7,052	7,235
General and administrative.....	17,648	20,438
	<u>103,824</u>	<u>113,023</u>

### Management salaries and benefits

	Salaries and related exp.	Stock options	Shares owned
<b>Board of Directors:</b>			
Niels Jacobsen Chairman of the Board (i).....	50	0	168,694,203
Thordur Magnusson Vice Chairman (ii).....	38	0	85,448,671
Arne Boye Nielsen.....	0	0	0
Kristjan Tomas Ragnarsson.....	25	0	623,789
Svafa Gronfeldt.....	25	0	0
Össur Kristinsson, former board member.....	25	0	0

### Executive committee:

Jon Sigurdsson President and CEO.....	924	1,250,000	15,168
Hjorleifur Palsson CFO.....	382	308,000	0
Egill Jonsson VP of M&O.....	305	308,000	822,749
Hilmar Bragi Janusson VP of R&D.....	324	308,000	0
Mahesh Mansukhani Presid. of S&M America.....	514	500,000	0
Olafur Gylfason Man. Director S&M EMEA.....	545	308,000	0

The shares owned by members of the board and executive committee are either owned by them personally or through holding companies.

- (i) Shares owned by William Demant Invest A/S which Niels Jacobsen represents on the Board.
- (ii) Shares owned by Eyrir Invest ehf. of which Thordur Magnusson owns 20.3% and is the Chairman of the Board.

# Notes to the Consolidated Financial Statements

## 9. Fees to Auditors

	2009	2008
Audit of Financial Statements.....	839	710
Review of Interim Financial Statements.....	243	252
Other services.....	118	235
	<u>1,200</u>	<u>1,198</u>

## 10. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	2009	2008
<b>Financial income</b>		
Interests on bank deposits.....	205	204
Income from other financial assets.....	11	0
Fair value changes of derivatives.....	0	640
Other financial income.....	38	20
	<u>254</u>	<u>864</u>
<b>Finance expenses</b>		
Interest on bank overdrafts and loans.....	(15,479)	(17,627)
Expenses from other financial assets.....	0	(131)
Other financial expenses.....	(108)	(545)
	<u>(15,587)</u>	<u>(18,303)</u>
Net exchange rate differences.....	(2,670)	(286)
Net financial income / (expenses).....	<u>(18,003)</u>	<u>(17,725)</u>

## 11. Income tax

Income tax is specified as follows:

	2009	2008
Current tax expenses.....	(4,996)	(465)
Deferred tax expenses.....	(2,479)	(9,280)
	<u>(7,475)</u>	<u>(9,745)</u>

	2009		2008	
	Amount	%	Amount	%
Profit before taxes.....	<u>30,237</u>		<u>38,233</u>	
Income tax calculated at 15%.....	(4,536)	15%	(5,735)	15%
Effect of different tax rates of other jurisdictions.....	(2,645)	9%	(1,585)	4%
Effect of non-deductible expenses.....	450	(1%)	(1,126)	3%
Effect of change in tax rate.....	518	(2%)	(590)	2%
Other changes.....	(1,262)	4%	(709)	2%
	<u>(7,475)</u>	25%	<u>(9,745)</u>	25%

# Notes to the Consolidated Financial Statements

Deferred tax:

	2009	2008
Origination and reversal of temporary differences.....	5,907	5,600
Write-downs (reversals of previous write-downs) of deferred tax assets.....	47	936
Losses recognised and utilised.....	(4,008)	2,088
Effect of changes in tax rate and laws.....	533	656
Total deferred tax expense.....	<u>2,479</u>	<u>9,280</u>

Deferred tax balances:

2008	Opening balance	Recognised in Income statement	Recognised directly in equity	Acquisitions / disposals	Exc. rate difference	Reclassified	Net
Goodwill.....	44,706	(5,918)			1,361	7,322	47,471
Intangible assets.....	(30,988)	4,021			(930)	821	(27,076)
Operating fixed assets.....	452	1,203			15	(821)	849
Tax loss carry forward.....	6,180	(1,594)			185		4,771
Inventories.....	3,440	(284)			131		3,287
Provisions.....	2,091	250	(221)		63		2,183
Current liabilities.....	7,199	(5,540)			216		1,875
Other.....	1,186	(1,418)	1,412		(53)		1,127
Total.....	<u>34,266</u>	<u>(9,280)</u>	<u>1,191</u>	<u>0</u>	<u>988</u>	<u>7,322</u>	<u>34,487</u>

2009	Opening balance	Recognised in Income statement	Recognised directly in equity	Acquisitions / disposals	Exc. rate difference	Reclassified	Net
Goodwill.....	47,471	(6,125)		(661)	222	(16,051)	24,856
Intangible assets.....	(27,076)	5,245		221	(594)	16,051	(6,153)
Operating fixed assets.....	849	(24)			43		868
Tax loss carry forward.....	4,771	(682)		147	359		4,595
Inventories.....	3,287	(893)			3		2,397
Provisions.....	2,183	(1,666)			100	(700)	(83)
Current liabilities.....	1,875	(420)	73		10		1,538
Other.....	1,127	2,086	240		(128)		3,325
Total.....	<u>34,487</u>	<u>(2,479)</u>	<u>313</u>	<u>(293)</u>	<u>15</u>	<u>(700)</u>	<u>31,343</u>

# Notes to the Consolidated Financial Statements

## 12. Earnings per share

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

	2009	2008
Net profit.....	22,762	28,488
Total average number of shares outstanding during the year (in thousands).....	427,776	422,982
Total average number of shares including potential shares (in thousands).....	429,750	423,026
Basic Earnings per Share (US cent) .....	5.32	6.74
Diluted Earnings per Share (US cent) .....	5.30	6.73
Cash Earnings per Share .....	9.70	12.29
Diluted Cash Earnings per Share .....	9.66	12.29

## 13. Additional information regarding cash flow

	2009	2008
Net profit .....	22,762	28,488
Items not affecting cash .....	21,711	29,582
Working capital provided by operating activities .....	44,473	58,070
Decrease / (increase) in inventories .....	13,787	(4,567)
Decrease in receivables .....	4,279	535
Increase / (decrease) in payables .....	6,616	(1,203)
Net cash provided by operating activities .....	69,155	52,835

### Non-cash transactions

During the year the Company entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

In February 2009 the Company refinanced its loan facilities where a bridge loan facility agreement with the outstanding amount of USD 48.7 million was converted to a long-term facility. This transaction is not reflected in the statement of cash flow.

The purchase of 62.25% of shares in Team Makena was partly paid with the issue of a bond which is not reflected in the statement of cash flows.

# Notes to the Consolidated Financial Statements

## 14. Property, plant and equipment

Operating fixed assets are specified as follows:

	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>2008</b>				
<b>Cost</b>				
At 1 January 2008.....	17,274	34,286	28,182	79,742
Additions.....	419	3,870	3,465	7,754
Exchange rate differences.....	(620)	(1,880)	(1,025)	(3,525)
Disposed of on disposal of a subsidiary.....	0	(1,776)	(794)	(2,570)
Fully depreciated assets.....	0	(471)	0	(471)
At 31 December 2008.....	<u>17,073</u>	<u>34,029</u>	<u>29,828</u>	<u>80,930</u>
<b>Accumulated depreciation</b>				
At 1 January 2008.....	8,351	20,731	14,690	43,772
Charge for the period.....	525	3,339	4,863	8,727
Exchange rate differences.....	(355)	(1,515)	(585)	(2,455)
Eliminated on disposal.....	0	(954)	(616)	(1,570)
Fully depreciated assets.....	0	(471)	0	(471)
At 31 December 2008.....	<u>8,521</u>	<u>21,130</u>	<u>18,352</u>	<u>48,003</u>
Carrying amount at 31 December 2008.....	<u>8,552</u>	<u>12,899</u>	<u>11,476</u>	<u>32,927</u>
<b>2009</b>				
<b>Cost</b>				
At 1 January 2009.....	17,073	34,029	29,828	80,930
Reclassification.....	0	302	0	302
Classified as held for sale.....	(3,214)	0	0	(3,214)
Additions.....	850	5,008	3,771	9,629
Acquired on acquisition of subsidiary.....	0	1,496	89	1,585
Exchange rate differences.....	347	1,004	537	1,888
Eliminated on disposal.....	0	(1,392)	(532)	(1,924)
Fully depreciated assets.....	0	(110)	(26)	(136)
At 31 December 2009.....	<u>15,056</u>	<u>40,337</u>	<u>33,667</u>	<u>89,060</u>
<b>Accumulated depreciation</b>				
At 1 January 2009.....	8,521	21,130	18,352	48,003
Reclassification.....	0	274	0	274
Classified as held for sale.....	(906)	0	0	(906)
Charge for the period.....	429	3,338	4,413	8,180
Acquired on acquisition of subsidiary.....	0	1,289	83	1,372
Exchange rate differences.....	200	833	326	1,359
Eliminated on disposal.....	0	(1,138)	(234)	(1,372)
Fully depreciated assets.....	0	(110)	(26)	(136)
At 31 December 2009.....	<u>8,244</u>	<u>25,616</u>	<u>22,914</u>	<u>56,774</u>
Carrying amount at 31 December 2009.....	<u>6,812</u>	<u>14,721</u>	<u>10,753</u>	<u>32,286</u>

# Notes to the Consolidated Financial Statements

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

	2009	2008
Cost of goods sold .....	3,594	3,507
Sales and marketing expenses .....	603	678
Research and development expenses.....	317	319
General and administrative expenses .....	3,666	4,223
	<u>8,180</u>	<u>8,727</u>

The following useful lives are used in the calculation of depreciation.

Buildings	20 - 50 years
Fixtures and furniture	3 -10 years
Machinery and equipment	4 - 10 years

## Assets pledged as security

All the Company's assets have been pledged in relation to financing arranged by Arion Bank. The Company is not allowed to pledge the assets as security to raise further financing.

## 15. Goodwill

	31.12.2009
<b>Cost</b>	
At 1 January 2008.....	342,359
Reclassification of Goodwill to deferred tax.....	(7,322)
Addition due to previous acquisitions.....	2,399
Exchange rate differences.....	(15,055)
At 31 December 2008.....	322,381
Arising on acquisition of subsidiaries.....	7,083
Exchange rate differences.....	5,380
At 31 December 2009.....	<u>334,844</u>
<b>Carrying amount</b>	
At 31 December 2009.....	<u>334,844</u>
At 31 December 2008.....	<u>322,381</u>

During the year, the Company assessed the recoverable amount of goodwill and determined that none of the Company's cash-generating units have suffered an impairment loss.

### 15.1 Allocation of goodwill to cash-generating units

In April 2009 improvements to IAS 36 were issued that apply prospectively for periods beginning on or after 1. January 2010. The Company adopted the amendment before effective date. The effect of the early adoption is a reallocation of the Company's goodwill to the operating segments.

# Notes to the Consolidated Financial Statements

The carrying amount of goodwill was allocated to the following cash-generating units:

	Wacc %	31.12.2009	31.12.2008
Americas.....	11.72 / 10.03	205,312	196,280
EMEA.....	12.03 / 11.03	126,611	123,524
Asia.....	11.57 / 11.33	2,921	2,577
		<u>334,844</u>	<u>322,381</u>

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on the financial budget for 2010 approved by the directors. The discount rate of 11.57. - 12.03% (2008: 10.0 - 11.3%) per annum was used.

Cash flows beyond 2014 have been extrapolated using a steady 3% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in each market area. The directors believe that any reasonably further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

## 16. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Other	Total
<b>2008</b>					
<b>Cost</b>					
At 1 January 2008.....	29,731	16,615	36,307	16,784	99,437
Exchange rate differences.....	(1,496)	(758)	(1,564)	0	(3,818)
At 31 December 2008.....	<u>28,235</u>	<u>15,857</u>	<u>34,743</u>	<u>16,784</u>	<u>95,619</u>
<b>Amortization</b>					
At 1 January 2008.....	14,097	8,451	5,568	9,524	37,640
Charge for the period.....	8,828	2,362	1,125	2,440	14,755
Exchange rate differences.....	(916)	(565)	(470)	0	(1,951)
At 31 December 2008.....	<u>22,009</u>	<u>10,248</u>	<u>6,223</u>	<u>11,964</u>	<u>50,444</u>
Carrying amount at 31 December 2008.....	<u>6,226</u>	<u>5,609</u>	<u>28,520</u>	<u>4,820</u>	<u>45,175</u>
<b>2009</b>					
<b>Cost</b>					
At 1 January 2009.....	28,235	15,857	34,743	16,784	95,619
Reclassification.....	0	(302)	0	0	(302)
Additions.....	0	0	0	50	50
Fully depreciated assets.....	0	(373)	0	(1,350)	(1,723)
Exchange rate differences.....	784	493	636	0	1,913
At 31 December 2009.....	<u>29,019</u>	<u>15,675</u>	<u>35,379</u>	<u>15,484</u>	<u>95,557</u>
<b>Amortization</b>					
At 1 January 2009.....	22,009	10,248	6,223	11,964	50,444
Reclassification.....	0	(274)	0	0	(274)
Charge for the period.....	5,760	2,256	480	2,072	10,568
Fully depreciated assets.....	0	(373)	0	(1,350)	(1,723)
Exchange rate differences.....	539	389	174	58	1,160
At 31 December 2009.....	<u>28,308</u>	<u>12,246</u>	<u>6,877</u>	<u>12,744</u>	<u>60,175</u>
Carrying amount at 31 December 2009.....	<u>711</u>	<u>3,429</u>	<u>28,502</u>	<u>2,740</u>	<u>35,382</u>

# Notes to the Consolidated Financial Statements

---

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

	<u>2009</u>	<u>2008</u>
Cost of goods sold.....	8	70
Sales and marketing expenses.....	6,765	9,096
Research and development expenses.....	3,441	4,185
General and administrative expenses.....	354	1,404
	<u>10,568</u>	<u>14,755</u>

Part of 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 following useful lives are used in the calculation of amortisation.

Customer and distribution relationships	4 - 5 years
Patents	5 - 50 years
Trademarks	3 - infinitive
Other	3 - 10 years

The Company main intangible assets are in relation to the acquisition of Royce Medical and Gibaud Group. The amortization in 2009 amounted to USD 10.5 million (2008: 14.8 million) and the expected amount for 2010 is USD 5.2 million. The Gibaud trademarks amounting to USD 16.1 million are estimated to have infinitive life. The trademark has been well established within the French market since the foundation of the company in 1890.



# Notes to the Consolidated Financial Statements

## 17. The Consolidation

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Össur Holding, AB.....	Sweden	100%	Holding
Össur Nordic, AB.....	Sweden	100%	Sales, distribution and services
Össur Nordic, AS.....	Norway	100%	Sales, distribution and services
Össur Americas Holdings, Inc.....	USA	100%	Holding
Össur Americas, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Empower Reimbursement Services Inc..	USA	100%	Services
Empower Business Solutions, Inc.....	USA	100%	No operation
Team Makena LLC.....	USA	62%	Distribution
Össur Funding LLC.....	USA	100%	Holding
Össur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
Össur Europe Holding, BV.....	Netherlands	100%	Holding
Össur Europe, BV.....	Netherlands	100%	Sales, distribution and services
Össur UK, Holdings, Ltd.....	UK	100%	Holding
IMP Holdings, Ltd.....	UK	100%	Holding
Össur 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%	No operation
Ortex, Ltd.....	UK	100%	No operation
Medistox, Ltd.....	UK	100%	No operation
Össur Iberia SA.....	Spain	100%	Sales, distribution and services
Össur 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
Tournier Bottu SAS.....	France	100%	Manufacturer
Gibaud Suisse SA.....	Swiss	100%	Sales, distribution and services
Össur Asia Pacific PTY, Ltd.....	Australia	100%	Sales, distribution and services
Össur Prosth. & Rehabilit. Co, Ltd.....	China	100%	Manufacturer, sales, distribution and services
Össur Holding BV.....	Netherlands	100%	Holding
Össur Hong Kong Limited.....	Hong Kong	100%	No operation
Gentleheal ehf.....	Iceland	100%	No operation

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

Three new companies were established in 2009, Empower Reimbursement Services Inc., Össur Holding BV and Össur Hong Kong Limited.

Furthermore, the company acquired a 62,25% stake in Team Makena LLC, which is a distribution company in America.

# Notes to the Consolidated Financial Statements

## 18. Other financial assets

### Financial assets carried at fair value through profit or loss (FVTPL)

	31.12.2009	31.12.2008
Investment in associates.....	1,445	96
Loans and receivables.....	2,122	1,060
	<u>3,567</u>	<u>1,156</u>

### Investments in associates

Name	Place of registration and operation	Ownership %	Principal activity	31.12.2009	31.12.2008
Derby Finances, SAS.....	France	50%	Manufacturer	21	22
Dashe Orthopedic Supplies, Inc.....	USA	50%	Distribution	1,424	0
Orthomart Inc.....	USA	30%	Distribution	0	74
				<u>1,445</u>	<u>96</u>

The Company acquired a 50% stake in Dashe Orthopedic Supplies Inc, which is a distribution company in America.

## 19. Assets classified as held for sale

The Company intends to dispose of its office facilities in Aliso Viejo, California. The book value of these assets is USD 2.3 million in December 2009. The assets have been put on sale and will be vacated when the Company headquarters in the Americas will be relocated in March 2010.

## 20. Bank balances and cash

	31.12.2009	31.12.2008
Bank accounts.....	76,619	27,836
Bankers draft received.....	2,818	2,840
Cash and other cash equivalents.....	395	230
	<u>79,831</u>	<u>30,906</u>

## 21. Inventories

	31.12.2009	31.12.2008
Raw material.....	14,397	16,756
Work in progress.....	3,170	5,191
Finished goods .....	25,959	33,871
	<u>43,526</u>	<u>55,818</u>

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 8.1 million (2008: 10.2 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 2.1 million (2008: 2.6 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

# Notes to the Consolidated Financial Statements

## 22. Accounts receivables and other assets

	31.12.2009	31.12.2008
Nominal value.....	47,940	47,552
Allowances for doubtful accounts.....	(3,521)	(3,016)
Allowances for sales return.....	(726)	(715)
	<u>43,693</u>	<u>43,821</u>

The average credit period on sales of goods is 43 days (2008: 49 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. The directors consider that the carrying amount of receivables approximates their fair value.

### Aging of accounts receivables

	31.12.2009	31.12.2008
Less than three months.....	41,464	41,269
Three to six months.....	6,288	3,228
Six to nine months.....	79	726
Older than nine months.....	109	2,329
	<u>47,940</u>	<u>47,552</u>

### Movement in the allowance for doubtful accounts

	2009	2008
At 1 January.....	(3,016)	(3,797)
Impairment losses recognised on receivables.....	582	(1,004)
Arising on acquisition.....	(1,341)	0
Amounts written off as uncollectible.....	288	1,542
Exchange rate difference.....	(34)	243
At 31 December.....	<u>(3,521)</u>	<u>(3,016)</u>

In determining the recoverability of an accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

### Other assets

	31.12.2009	31.12.2008
VAT refundable.....	1,779	865
Prepaid expenses.....	5,174	5,497
Other.....	3,460	3,669
	<u>10,413</u>	<u>10,031</u>

# Notes to the Consolidated Financial Statements

## 23. 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.....	454	5,068

Shares issued and outstanding at period-end totalled of 453,732,008 (2008: 423 million). The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:

	<u>Share capital</u>	<u>Share premium</u>	<u>Issued capital</u>
Balance at 1 January 2008.....	4,821	168,477	173,298
Cost due to increasing capital.....	0	(396)	(396)
Balance at 1 January 2009.....	4,821	168,081	172,902
29,500,000 fully paid ordinary shares 3 November 2009.....	237	27,572	27,809
1,250,000 fully paid ordinary shares 30 November 2009.....	10	1,276	1,286
Balance at 31 December 2009.....	5,068	196,929	201,997

## 24. Reserves

	<u>Statutory reserve</u>	<u>Stock option reserve</u>	<u>Hedging reserve</u>	<u>Translation reserve</u>	<u>Total reserves</u>
Balance at 1 January 2008.....	1,043	332	552	22,380	24,307
Loss on cash flow hedges.....			(8,605)		(8,605)
Share option charge for the period.....		657			657
Transferred to statutory reserves.....	162				162
Gain on hedge of a net investment.....				1,252	1,252
Transl. diff. of foreign operations.....				(22,031)	(22,031)
Balance at 1 January 2009.....	1,205	989	(8,053)	1,602	(4,257)
Loss on cash flow hedges.....			(427)		(427)
Share option charge for the period.....		426			426
Loss on hedge of a net investment.....				(997)	(997)
Transl. diff. of foreign operations.....				10,775	10,775
Transferred to statutory reserves.....	62				62
Balance at 31 December 2009.....	1,267	1,415	(8,480)	11,380	5,582

## 25. Retained earnings

	<u>Retained earnings</u>
At 1 January 2008.....	52,677
Transferred to statutory reserves.....	(162)
Net profit.....	28,488
At 1 January 2009.....	81,003
Transferred to statutory reserves.....	(62)
Net profit.....	22,706
At 31 December 2009.....	103,647

# Notes to the Consolidated Financial Statements

## 26. Stock option contracts and obligations to increase share capital

The Company has in place a share option plan, approved at the Company's Annual General Meetings, under which managers may be granted options to purchase ordinary shares at an exercise price, which is the average of the Company's share price twenty working days prior to the grant date.

Each employee share option converts into one ordinary share on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. The options expire one month after the exercise date.

The Company's listing on NASDAQ OMX Copenhagen activated a clause in the share option agreements changing the exercise price from ISK to DKK using the exchange rate at grant date. This lowered the estimated remaining cost due to the stock option contracts by USD 0.8 million.

The following share-based payment arrangements were in existence at year end:

	Number	Grant date	Exercise date	Exercise price DKK	Fair value at grant date (Date of conversion to DKK)
Issued 5 February 2007 .....	1,540,000	5.2.2007	1.12.2011	7.8	5.5
Issued 8 February 2007 .....	1,250,000	5.2.2007	1.12.2011	7.8	5.5
Issued 23 February 2008 .....	1,950,000	23.2.2008	23.2.2012	6.9	5.5
Issued 15 July 2008 .....	500,000	15.7.2008	15.7.2012	5.4	5.5
Issued 2 March 2009 .....	200,000	2.3.2009	1.3.2013	4.4	5.2
Issued 15 December 2009 .....	300,000	15.12.2009	15.12.2013	5.2	5.2
Total issued option contracts.....	<u>5,740,000</u>				

The employee must remain continuously employed with Össur until expiring date, either as an employee or in any other way, deemed satisfactory by the Company.

	2009		2008	
	Number of shares (in Thousands)	Weighted average contract rate (in DKK)	Number of shares (in Thousands)	Weighted average contract rate (in ISK)
Outstanding at beginning of period .....	5,740	7.2	3,098	92.3
Granted during the period .....	500	4.9	3,150	91.2
Forfeited during the period .....	(500)	6.9	(508)	91.9
Outstanding at the end of the period.....	<u>5,740</u>	<u>7.0</u>	<u>5,740</u>	<u>91.7</u>

Estimated remaining cost due to the stock option contracts are USD 1.0 million which will be expensed over the next four years. An expense of USD 0.5 million is recognised in the Income Statement for the period.

# Notes to the Consolidated Financial Statements

## 27. Borrowings

Secured - at amortized cost	Current		Non - current	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Loans in USD.....	13,641	13,630	102,721	116,339
Loans in EUR.....	13,022	7,172	104,886	66,736
Other borrowings.....	496	32	2,675	42
Bank overdrafts.....	23	7,583	0	0
Bridge loan in EUR.....	0	53,653	0	0
Total at end of period.....	27,182	82,070	210,282	183,117

Aggregated annual maturities of long-term loans are as follows:

	31.12.2009	31.12.2008
In 2010 / 2009.....	27,159	20,834
In 2011 / 2010.....	104,006	20,886
In 2012 / 2011.....	103,601	75,604
In 2013 / 2012.....	0	86,627
	234,766	203,951

In February 2009 the Company refinanced its loan facilities. The bridge loan facility agreement with the outstanding amount of USD 48.7 million was converted to a long term facility and interest was renegotiated for all the facilities.

The terms of the loan facilities 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 certain assets, including buildings, machinery, equipment and inventories to secure banking facilities granted.

Debt issuance cost has been capitalized and is amortized over the term of the loan. The remaining amount is USD 1.2 million at year-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.

## 28. Other financial liabilities

Outstanding interest rate swap contracts (cash flow hedge) at 31 December 2009 are due over the next three years. The contracts' fair value is negative USD 10.0 million and principal amount USD 147 million.

## 29. Deferred tax asset / (liability)

	31.12.2009	31.12.2008
At beginning of period.....	34,487	34,266
Income tax payable for the period.....	4,996	376
Calculated tax for the period.....	(7,475)	(9,656)
Reclassification to deferred tax asset/ (liability).....	(700)	7,322
Recognised due to acquisition / disposal of subsidiaries.....	(293)	0
Recognised directly through equity.....	313	1,191
Exchange rate differences.....	15	988
	31,343	34,487

# Notes to the Consolidated Financial Statements

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

	Assets	Liabilities	Net
Goodwill.....	28,619	(3,763)	24,856
Intangible assets.....	522	(6,675)	(6,153)
Operating fixed assets.....	1,046	(178)	868
Tax loss carry forward.....	4,595	0	4,595
Inventories.....	2,397	0	2,397
Provisions.....	617	(700)	(83)
Current liabilities.....	1,809	(271)	1,538
Other.....	3,325	0	3,325
Total tax assets / (liabilities).....	42,930	(11,587)	31,343
Tax asset and liabilities offsetting.....	(563)	563	0
Total.....	42,367	(11,024)	31,343

## 30. Provisions

	Current		Non-current	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Warranty (i).....	715	3,835	4,271	2,704
Restructuring (ii).....	0	3,017	0	0
Other.....	1,971	807	1,473	871
	2,686	7,659	5,744	3,575

(i) 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.

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

	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January 2008.....	4,194	3,788	2,059	10,041
Additional provision recognised.....	4,225	0	(238)	3,987
Utilization of provision.....	(1,880)	(604)	0	(2,484)
Exchange differences.....	0	(167)	(143)	(310)
At 31 December 2008.....	6,539	3,017	1,678	11,234
Additional provision recognised.....	3,633	0	1,157	4,790
Utilization of provision.....	(3,686)	(2,753)	(264)	(6,703)
Exchange differences.....	0	(264)	0	(264)
Reclassification.....	(1,500)	0	873	(627)
At 31 December 2009.....	4,986	0	3,444	8,430
Non-current.....	4,271	0	1,473	5,744
Current.....	715	0	1,971	2,686
At 31 December 2009.....	4,986	0	3,444	8,430

# Notes to the Consolidated Financial Statements

## 31. Related party transactions

The Company had no material transactions with related parties in 2009.

## 32. Other liabilities

	<u>31.12.2009</u>	<u>31.12.2008</u>
Accrued expenses.....	11,999	7,279
Accrued salaries and related expenses.....	14,760	12,928
Accrued Royalties.....	1,185	1,334
Sales tax and VAT.....	934	429
Payable due to previous acquisition.....	2,324	2,324
Other.....	2,075	1,839
	<u>33,276</u>	<u>26,132</u>

## 33. Financial instruments

### 33.1 Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from the previous period.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 23, 24 and 25 respectively.

### Equity ratio

The Company's management continuously reviews the capital structure. As part of this review, the management considers amongst other the cost of capital. The Company has a target equity ratio of minimum 30% determined as the proportion of equity to total assets.

The equity ratio at the period end was as follows:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Equity .....	312,223	249,648
Total assets .....	628,217	603,778
Equity ratio.....	49.7%	41.3%

### 33.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the Consolidated Financial Statements.



# Notes to the Consolidated Financial Statements

## 33.3 Financial risk management objectives

The Company's Corporate finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

## 33.4 Foreign currency risk management

The Company operates on a global market hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The general policy is to apply natural exchange rate hedging to the extent possible but the Company also utilizes forward foreign exchange contracts when appropriate.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
USD .....	148,144	156,000	75,052	67,498
EUR .....	137,838	151,193	62,419	55,936
DKK .....	0	0	28,563	0
GBP .....	1,664	1,169	4,407	8,046
SEK .....	3,055	2,196	5,542	5,370
CAD .....	532	358	2,445	2,296
Other .....	5,306	4,905	4,910	2,587
	<u>296,540</u>	<u>315,820</u>	<u>183,338</u>	<u>141,732</u>

## Foreign currency sensitivity analysis

The Company is mainly exposed to the currency of Iceland (ISK) and the European Union (EUR).

The following table details the Company's sensitivity to a 10% decrease in USD against the relevant foreign currencies with all other variables fixed. The sensitivity analysis includes all foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. The table below indicates the effect on profit or loss and other equity where USD weakens 10% against the relevant currency. For a 10% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the profit or loss and other equity.

# Notes to the Consolidated Financial Statements

	EUR <sup>(i)</sup>		ISK <sup>(ii)</sup>	
	2009	2008	2009	2008
Profit or loss .....	2,514	2,549	(2,488)	(2,952)
Other equity .....	7,792	6,264	305	(287)

(i) 30% (2008: 28%) of the Company's cost is in EUR against 35% (2008: 32%) of its total income causing an increase in profit if the USD decreases against the EUR.

(ii) This is attributable to the fact that approximately 9% (2008: 10%) of the Company's operating cost is in ISK against 0.3% (2008: 0.5%) of its income.

### 33.5 Interest rate risk management

The Company is exposed to interest rate risk as funds are mainly borrowed at floating interest rates. Interest rate risk is managed by the Corporate Finance function by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Contracts with nominal values of USD 140 million and EUR 48.6 million have been made to swap floating interest rates to fixed with an average weighted interest rate of 5.69% for periods up to 2012. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the start of the financial period.

Outstanding interest rate swap contracts (cash flow hedge) at 31 December 2009 are due over the next three years. The contracts' fair value is negative USD 10.0 million (2008: negative USD 9.5 million) and principal amount USD 147 million (2008: USD 167 million).

Following the collapse of Kaupthing Bank in October 2008, the treatment of Össur's interest rate swap agreements has been subject to uncertainty. In April 2009, Össur formally declared the agreements void and invalid, based on the counterparty's inability to fulfil its obligations according to the agreements. Kaupthing Bank has argued that the agreements remained in full force. In January 2010, Kaupthing Bank formally declared that the agreements had been closed as of 30 December 2009 because Össur had denied to pay outstanding payments and put up collateral. Preliminary settlement discussions between Össur and Kaupthing Bank are currently ongoing. As a precaution, the agreements will continue to be accounted for according to International Financial Reporting Standards in the Company's Consolidated Financial Statements. At the end of December their market value amounted to minus USD 10.0 million (2008: 9.5 million). Changes in market value are realized through equity.

# Notes to the Consolidated Financial Statements

## 33.6 Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At period end the Company had undrawn revolving credit facilities at its disposal amounting to USD 10.8 million (2008: 0.8 million) to further reduce liquidity risk.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
<b>2009</b>					
Borrowings .....	5.69%	39,994	225,314	0	265,308
Non-interest bearing liabilities .....	-	49,081	0	0	49,081
		<u>89,075</u>	<u>225,314</u>	<u>0</u>	<u>314,389</u>
<b>2008</b>					
Borrowings .....	5.95%	97,882	208,769	0	306,651
Non-interest bearing liabilities .....	-	41,159	0	0	41,159
		<u>139,041</u>	<u>208,769</u>	<u>0</u>	<u>347,810</u>

## 34. Operating lease arrangements

Payments recognised as an expense:

	2009	2008
Minimum lease payments.....	<u>7,807</u>	<u>7,641</u>
Non-cancellable operating lease commitments		
	<u>31.12.2009</u>	<u>31.12.2008</u>
Not longer than 1 period.....	8,485	5,964
Longer than 1 period and not longer than 5 periods.....	24,429	16,691
Longer than 5 periods.....	11,217	7,735
	<u>44,131</u>	<u>30,390</u>

Operating lease payments represent rentals payable by the consolidation for certain of its office properties and cars. Thirty rental agreements are in place for premises in Reykjavik, Netherlands, Germany, Canada, Australia, Sweden, United Kingdom, China and the United States. The leases expire in the periods 2010-2017.

# Notes to the Consolidated Financial Statements

---

## 35. Litigation

On 5 December 2006, Össur hf., parent company of Össur North America Inc. and Royce Medical Inc., Össur America's predecessor companies, disclosed to the Office of Inspector General of the U.S. Department of Defence that Össur North America, Inc. and Royce Medical Company may have made some sales to the government that were not consistent with the requirements of the Buy American Act or Trade Agreements Act. A review was conducted by third party experts of the sales and the circumstances surrounding the sales. The review's conclusions were sent in a report to the Inspector General of the Department of Defence in the last quarter of 2007. The likely outcome of this matter remains uncertain.

## 36. Insurance

	<u>Insurance value</u>	<u>Book value</u>
Fixed assets and inventories .....	170,728	82,684

The consolidation has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is USD 349 million. In addition the consolidation has a product & professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductible amount on the product & professional liability and product recall insurances is USD 50 thousand.

## 37. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on February 3th 2010.

# Notes to the Consolidated Financial Statements

## Unaudited Information

The following notes are not audited as they relate to quarterly information and the Company only requires an audit for the full year.

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Net sales .....	87,871	84,184	81,345	77,180	79,440
Cost of goods sold .....	(34,863)	(32,463)	(31,284)	(30,155)	(30,429)
<b>Gross profit</b> .....	<b>53,008</b>	<b>51,721</b>	<b>50,061</b>	<b>47,025</b>	<b>49,011</b>
Other income .....	131	18	120	227	(49)
Sales and marketing expenses .....	(23,451)	(21,948)	(23,105)	(24,063)	(22,863)
Research and development expenses .....	(5,132)	(4,170)	(4,813)	(4,965)	(5,027)
General and administrative expenses .....	(10,834)	(10,725)	(10,490)	(10,375)	(10,257)
<b>Profit from operations</b> .....	<b>13,722</b>	<b>14,896</b>	<b>11,773</b>	<b>7,849</b>	<b>10,815</b>
Financial income .....	69	45	70	70	639
Financial expenses .....	(4,073)	(4,047)	(4,080)	(3,387)	(3,987)
Net exchange rate difference .....	793	(4,196)	(4,481)	5,214	(2,621)
Total financial income/(expenses) .....	(3,211)	(8,198)	(8,491)	1,897	(5,969)
<b>Profit before tax</b> .....	<b>10,511</b>	<b>6,698</b>	<b>3,282</b>	<b>9,746</b>	<b>4,846</b>
Income tax .....	(2,437)	(1,938)	(927)	(2,173)	(675)
<b>Net profit</b> .....	<b>8,074</b>	<b>4,760</b>	<b>2,355</b>	<b>7,573</b>	<b>4,171</b>
EBITDA .....	17,812	19,355	16,958	12,863	16,324

## Earnings per share

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

	Q4 2009	Q4 2008
Net profit.....	8,074	4,171
Total average number of shares outstanding during Q4 (in thousands).....	442,001	422,982
Total average number of shares including potential shares (in thousands).....	447,935	422,906
Basic Earnings per Share (US cent) .....	1.83	0.99
Diluted Earnings per Share (US cent) .....	1.80	0.99
Cash Earnings per Share .....	2.75	2.29
Diluted Cash Earnings per Share .....	2.72	2.29