Össur hf.

Consolidated Financial Statements

December 31st 2010

Össur hf.
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Id-no. 560271-0189

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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 2010. 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, Mexico, France, the Netherlands, the UK, Sweden, Norway, Spain, S-Africa, 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 358.5 million, compared to USD 330.6 million in the preceding year. This represents a increase in sales of approximately 8.5%. Net profit amounted to USD 35.4 million compared to USD 22.8 million in 2009. Diluted Earnings per Share amounted to US cents 7.8 compared to US cents 5.3 in 2009. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 74.4 million compared to USD 67.0 million in the preceding year.

The total assets of the Össur Consolidation amounted to USD 607.1 million at year end, liabilities were 263.5 million, and equity was 343.6 million. The equity ratio at year end was 57%, compared to 50% the preceding year.

In the course of the year the Company employed on average 1,627 employees.

The market value of the Company's share at year end was 778 million USD and increased by 31% on the NASDAQ OMX Iceland market and 63% on NASDAQ OMX Copenhagen market over the year. At year end, shareholders in Össur hf. numbered 2,798 compared to 2,524 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 13.9%.

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 is 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 2011. 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 2010 with their signatures.

Reykjavík, 7 February 2011

Board of Directors

Niels Jacobsen
Chairman of the Board

Arne Boye Nielsen

Kristján T. Ragnarsson

Þórður Magnússon

Svafa Grönfeldt

President and CEO

Jón Sigurðsson

Financial Ratios

Consolidated statement

		2010	2009	2008	2007	2006
Income Statement						
Net sales	USD '000	358,538	330,580	346,835	331,966	248,653
Gross profit	USD '000	222,622	201,815	214,203	192,033	154,797
Operating expenses [1]	USD '000	163,964	154,071	167,678	164,317	127,130
Profit from operations	USD '000	60,245	48,240	55,958	39,716	19,743
Net profit	USD '000	35,362	22,762	28,488	7,580	4,360
EBITDA	USD '000	74,358	66,988	79,440	64,392	39,493
Balance Sheet						
Total assets	USD '000	607,078	628,217	603,778	635,821	612,752
Equity	USD '000	343,558	312,223	249,648	250,282	161,639
Net interest-bearing debt (NIBD)	USD '000	132,816	157,633	234,281	283,106	350,252
Cash Flow						
Cash generated by operations	USD '000	64,331	85,770	71,460	61,528	32,686
Cash provided by operating activities	USD '000	39,995	69,155	52,835	45,701	15,988
Cash flows from investing activities	USD '000	(18,987)	(16,423)	(6,648)	(17,781)	(179,052)
Cash flows from financing activities	USD '000	(45,594)	(4,284)	(30,610)	(25,289)	154,197
Free Cash flow	USD '000	33,389	60,238	46,040	38,841	6,352
Key figures						
Sales Growth USD	%	8.5	(4.7)	4.5	33.5	55.6
Operating margin	%	16.8	14.6	16.0	12.0	8.0
EBITDA margin	%	20.7	20.3	22.9	19.4	15.9
Equity ratio	%	56.6	49.7	41.3	39.4	26.4
Ratio of net debt to EBITDA		1.8	2.4	2.9	4.4	8.9
Ratio of debt to EBITDA		2.5	3.5	3.3	4.6	9.2
Current ratio		1.9	2.3	1.1	0.9	0.6
Return on equity	%	10.2	8.1	11.0	4.0	3.0
Employees	Number	1,627	1,532	1,587	1,617	1190
Market						
Market value of equity [2]	USD '000	777,593	529,151	349,263	672,024	605,572
Number of shares	Millions	454	454	423	423	385
Price/earnings ratio, (P/E)		22.3	23.2	12.3	88.7	138.9
Diluted EPS	US Cent	7.77	5.30	6.73	1.94	1.13
Diluted Cash EPS	US Cent	10.87	9.66	12.29	8.24	6.27

Notes

1. Excluding other income.
2. Market value based on closing price at 31.12.2010 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 Statement by the Board of Directors and President and CEO, the balance sheet at December 31 2010, 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 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, the Consolidated Financial Statements give a true and fair view of the financial position of Össur hf. as of 31 December 2010, 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.

Kópavogur, 7 February 2011

Deloitte hf.

Sigurður Páll Hauksson
State Authorized Public Accountant

Þorsteinn Pétur Guðjónsson
State Authorized Public Accountant

Consolidated Income Statements for the years 2010 and 2009

	Notes	2010	2009	Unaudited Q4 2010	Unaudited Q4 2009
Net sales	5	358,538	330,580	94,612	87,871
Cost of goods sold		(135,916)	(128,765)	(36,078)	(34,863)
Gross profit		222,622	201,815	58,534	53,008
Other income	7	1,587	496	(25)	131
Sales and marketing expenses		(97,232)	(92,567)	(25,844)	(23,451)
Research and development expenses		(19,731)	(19,080)	(5,148)	(5,132)
General and administrative expenses		(47,001)	(42,424)	(13,157)	(10,834)
Profit from operations		60,245	48,240	14,360	13,722
Financial income		320	254	40	69
Financial expenses		(15,959)	(15,587)	(4,226)	(4,073)
Net exchange rate difference		3,096	(2,670)	1,155	793
Net financial income / (expenses)	10	(12,543)	(18,003)	(3,031)	(3,211)
Profit before tax		47,702	30,237	11,329	10,511
Income tax	11	(12,340)	(7,475)	(3,268)	(2,437)
Net profit		35,362	22,762	8,061	8,074
Attributable to:					
Owners of the Company		34,866	22,706	7,971	8,018
Non-controlling interests		496	56	90	56
		35,362	22,762	8,061	8,074
Earnings per Share					
Basic Earnings per Share		7.79	5.32	1.78	1.83
Diluted Earnings per Share		7.77	5.30	1.77	1.80

All amounts in thousands of USD

Consolidated Statements of Comprehensive Income for the years 2010 and 2009

	Notes	2010	2009	Unaudited Q4 2010	Unaudited Q4 2009
Net profit		35,362	22,762	8,061	8,074
Other comprehensive income					
Gain / (loss) on hedge of a net investment in foreign operations		3,510	(1,216)	866	902
Gain / (loss) on cash flow hedges		5,436	(521)	3,048	(99)
Transl. difference of shares in foreign operations		(12,166)	10,775	(3,055)	(3,286)
Income tax relating to components of other comprehensive income		(1,471)	313	(665)	70
Other comprehensive income (net of tax)		(4,691)	9,351	194	(2,413)
Total comprehensive income		30,671	32,113	8,255	5,661
Attributable to:					
Owners of the Company		30,175	32,057	8,165	5,605
Non-controlling interests		496	56	90	56
		30,671	32,113	8,255	5,661

All amounts in thousands of USD

Consolidated Balance Sheets

Assets

	Notes	31.12.2010	31.12.2009
Non-current assets			
Property, plant and equipment	14	32,089	32,286
Goodwill	15	339,153	334,844
Other intangible assets	16	29,975	35,382
Other financial assets	18	4,160	3,567
Deferred tax asset	30	36,171	42,367
		441,548	448,446
Current assets			
Inventories	21	46,261	43,526
Accounts receivables	22	52,322	43,693
Other assets	23	11,349	10,413
Assets classified as held for sale	19	1,199	2,308
Bank balances and cash	20	54,399	79,831
		165,530	179,771
Total assets		607,078	628,217

Equity and liabilities

	Notes	31.12.2010	31.12.2009
Equity			
Issued capital	24	201,997	201,997
Reserves	25	1,420	5,582
Retained earnings	26	138,513	103,647
Equity attributable to owners of the Company		341,930	311,226
Non-controlling interest in equity		1,628	997
Total equity		343,558	312,223
Non-current liabilities			
Borrowings	28	158,378	210,282
Deferred tax liabilities	30	13,691	11,024
Provisions	31	4,718	5,744
Other financial liabilities	29	1,358	9,995
		178,145	237,045
Current liabilities			
Borrowings	28	28,837	27,182
Accounts payable		15,462	13,353
Taxes payable		3,339	2,452
Provisions	31	2,582	2,686
Accrued salaries and related expenses	33	16,006	14,760
Other liabilities	34	19,149	18,516
		85,375	78,949
Total equity and liabilities		607,078	628,217

Consolidated Statements of Cash Flows for the years 2010 and 2009

	Notes	2010	2009
Cash flows from operating activities			
Profit from operations		60,245	48,240
Depreciation and amortization	14, 16	14,113	18,748
(Gain) / loss on disposal of assets		(982)	531
Change in provisions		(973)	(2,811)
Changes in operating assets and liabilities		(8,072)	21,062
Cash generated by operations		64,331	85,770
Interest received		240	302
Interest paid		(18,025)	(10,570)
Taxes paid		(6,551)	(6,347)
Net cash provided by operating activities		39,995	69,155
Cash flows from investing activities			
Purchase of fixed assets	14, 16	(9,309)	(9,679)
Proceeds from sale of fixed assets		2,703	762
Acquisition of subsidiaries	17	(10,239)	(5,897)
Changes in financial assets		(2,142)	(1,609)
		(18,987)	(16,423)
Cash flows from financing activities			
Repayment of short-term borrowings		(1,304)	(7,493)
Repayments of long-term borrowings		(43,711)	(25,912)
Paid in capital		0	29,121
Dividends from subsidiaries paid to non-controlling interests		(579)	0
		(45,594)	(4,284)
Net change in cash		(24,586)	48,448
Effects of foreign exchange rate adjustments		(846)	477
Cash at beginning of period		79,831	30,906
Cash at end of period		54,399	79,831
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Consolidated Statements of Changes in Equity for the period ended 31 December 2010

	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 2009	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)
Change 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
Stock option charge for the period				426				426		426
Non controlling interest arising on acquisition								0	941	941
Paid in 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
Net profit							34,866	34,866	496	35,362
Gain on hedge of a net investment in foreign operations net of tax						2,879		2,879		2,879
Change on cash flow hedges net of tax					4,457			4,457		4,457
Translation difference of shares in foreign operations						(12,027)		(12,027)		(12,027)
Total comprehensive income for the period	0	0	0	0	4,457	(9,148)	34,866	30,175	496	30,671
Payment of dividends								0	(579)	(579)
Stock option charge for the period				529				529		529
Non controlling interest arising on acquisition								0	714	714
Balance at 31 December 2010	5,068	196,929	1,267	1,944	(4,023)	2,232	138,513	341,930	1,628	343,558

All amounts in thousands of USD

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, S-Africa 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, Össur Mexico in Tijuana Mexico 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 2010. The standards and interpretations relevant to the Company are:

IFRS 5 (revised 2009) - Non-current Assets Held for Sale and Discontinued Operations, IAS 1 (revised 2009) - Presentation of Financial Statements, IAS 7 (revised 2009) - Statement of Cash Flows, IAS 27 (as revised in 2008) - Consolidated and Separate Financial Statements, IAS 28 (as revised in 2008) - Investments in associates, IFRS 3 (revised 2008) - Business Combinations.

IFRS 3(revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in the Income Statement as incurred, whereas previously they were accounted for as part of the cost of the acquisition. Legal fees amounting to 402 thousand are expensed in the Income Statement that previously would have been treated as part of the acquisition.

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 believes that implementation of those standards and interpretations do not have a material affect on the Consolidated Financial Statements of the Company.

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. The Financial Statements are presented in USD, which is the Company´s functional currency.

3.2 Basis of preparation

The Consolidated Financial Statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The accounting policies adopted are consistent with those followed in the preparation of the Company's Annual Financial Statements for the period ended 31 December 2009.

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 entity 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 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 share-based payment arrangements of the acquire or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; 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.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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 initially recognized in the balance sheet and 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.

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 amortized 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. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated Income Statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of the relevant cash-generating unit, 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 and dividend

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

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.

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.

Exchange differences are recognised in the Income Statement in the period they occur, except for exchange difference related to hedging instrument that are designed as hedges of net investment in foreign operations. That exchange difference are included in the foreign currency translation reserve in other comprehensive income. Such exchange differences are recognised in income statement in the period in which the foreign operations are disposed of.

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. Exchange differences arising, if any, are recognised in equity.

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 27.

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, with a corresponding increase in equity. 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 tax rates that apply for 2010 in each country.

Deferred tax

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 deferred tax 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.

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.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 Company and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualify for recognition as an asset are 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 balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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 with finite useful life are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is allocated on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each balance sheet date, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

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 amortization 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 amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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.

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 or announcing its main features to those affected by 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 expected 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

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

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.

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 a 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.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3.20 Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'fair value through profit and loss' or 'other financial liabilities'.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 Income Statement.

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 35.

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 cash flow of recognised liabilities 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 and interest risk, as either cash flow hedges or hedges of net investment in foreign operations.

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 29 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 25.

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives, that are designated and qualify as cash flow hedges, is recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other financial expense / income' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

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 estimation 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 3.13 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each balance sheet date.

5. Net sales

Specified according to geographical segments:

	2010	2009
Americas	185,642	159,278
EMEA	156,377	156,906
Asia	16,519	14,396
	358,538	330,580

Specified according to product lines:

	2010	2009
Prosthetics	159,849	148,513
Bracing and Supports	179,410	161,732
Compression Therapy (Phlebology)	17,543	18,159
Other products	1,736	2,176
	358,538	330,580

Specified according to currency:

	2010	2009
US Dollar, USD	187,256	159,080
Euro, EUR	109,996	115,954
British Pound, GBP	18,120	17,953
Canadian dollar, CAD	16,239	13,921
Swedish Krona, SEK	11,586	11,326
Norwegian Krona, NOK	6,941	6,708
Australian Dollar, AUD	3,557	2,857
Icelandic Krona, ISK	1,356	951
Other	3,487	1,830
	358,538	330,580

6. Segment information

Information reported to the President and CEO for the purposes of resource allocation and assessment of segment performance focuses on geographical markets from the location of customers. The Company´s reportable segments under IFRS 8 are therefore as follows with an analysis of the Company's revenue and results:

2010	Americas	EMEA	Asia	Eliminations	Consolidated
	2010	2010	2010	2010	2010
Revenue					
External sales	185,642	156,377	16,519	0	358,538
Inter-segment sales	30,062	82,577	0	(112,639)	0
Total revenue	215,704	238,954	16,519	(112,639)	358,538

Inter-segment sales are calculated from production cost and periodically adjusted to bring local operating profit to benchmarked results.

	Americas	EMEA	Asia	Eliminations	Consolidated
Result					
Segment result	36,808	18,021	5,416	0	60,245
Financial income/(expenses)					(12,543)
Profit before tax					47,702
Income tax					(12,340)
Net profit					35,362
Other information					
Capital additions	4,715	4,164	430	0	9,309
Depreciation and amortization	4,943	8,962	208	0	14,113

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of financial income, financial expenses and income tax expense. This is the measure reported to the President and CEO for the purposes of resource allocation and assessment of segment performance.

Revenues of approximately 23.5 million USD (2009: 20.9 million USD) arose from sales to the Company´s largest customer.

Balance sheet 31.12.2010	Americas	EMEA	Asia	Eliminations	Consolidated
Assets					
Segment assets	406,359	856,458	13,167	(668,906)	607,078
Liabilities					
Segment liabilities	270,710	470,231	6,025	(483,446)	263,520

2009	Americas 2009	EMEA 2009	Asia 2009	Eliminations 2009	Consolidated 2009
Revenue					
External sales	159,278	156,906	14,396	0	330,580
Inter-segment sales	19,260	60,542	0	(79,802)	0
Total revenue	178,538	217,448	14,396	(79,802)	330,580
Result					
Segment result	24,201	19,096	4,943	0	48,240
Financial income/(expenses)					(18,003)
Profit before tax					30,237
Income tax					(7,475)
Net profit					22,762

Other information	Americas	EMEA	Asia	Eliminations	Consolidated
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

	Americas	EMEA	Asia	Eliminations	Consolidated
Assets					
Segment assets	429,724	1,034,923	8,378	(844,808)	628,217
Liabilities					
Segment liabilities	308,668	588,956	8,469	(590,099)	315,994

7. Other income

Included in other income in 2010 is a gain from sale of an office building in Alisio Viejo, California, amounting to 1.2 million.

8. Salaries

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

	2010	2009
Salaries	85,856	76,714
Salary-related expenses	33,227	27,110
	119,084	103,824

Included in salary-related expense are pension related expenses amounting to 4.6 million (2009: 4.5 million).

Average number of positions	1,627	1,532

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

	2010	2009
Cost of goods sold	37,039	37,285
Sales and marketing	48,584	41,838
Research and development	8,923	7,052
General and administrative	24,538	17,648
	119,084	103,824

Management salaries and benefits

Board of Directors:	Salaries and related exp.	Stock options	Shares owned
Niels Jacobsen Chairman of the Board (i)	75	0	168,803,483
Þórður Magnússon Vice Chairman (ii)	45	0	62,848,671
Arne Boye Nielsen	30	0	0
Kristján Tómas Ragnarsson	30	0	623,789
Svafa Grönfeldt	30	0	0

(i) Shares owned by William Demant Invest A/S which Niels Jacobsen represents on the Board. Niels and financially related parties own personally 109,280 shares.

(ii) Shares owned by Eyrir Invest ehf. of which Þórður Magnússon owns 20.3% and is the Chairman of the Board. Þórður and financially related parties own personally 8,456 shares.

Executive Management:			
Jón Sigurðsson President and CEO	1,343	1,250,000	135,168
Hjörleifur Pálsson CFO	445	308,000	0
Egill Jónsson VP of M&O	339	308,000	822,749
Hilmar Bragi Janusson VP of R&D	365	308,000	0
Mahesh Mansukhani Presid. of S&M America	520	500,000	0
Ólafur Gylfason Man. Director S&M EMEA	500	308,000	0

9. Fees to Auditors

	2010	2009
Audit of Financial Statements	646	839
Review of Interim Financial Statements	124	243
Other services	114	118
	885	1,200

10. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	2010	2009
Financial income		
Interests on bank deposits	194	205
Share in profit/loss of associated companies	35	0
Other financial income	91	49
	320	254
Finance expenses		
Interest on loans	(15,431)	(15,479)
Other financial expenses	(528)	(108)
	(15,959)	(15,587)
Net exchange rate differences	3,096	(2,670)
Net financial income / (expenses)	(12,543)	(18,003)

11. Income tax

Income tax is specified as follows:

	2010	2009
Current tax expenses	(6,826)	(4,996)
Deferred tax expenses	(5,605)	(2,479)
Deferred tax reclassified from equity to income	91	0
	(12,340)	(7,475)

	2010		2009	
	Amount	%	Amount	%
Profit before taxes	47,702		30,237	
Income tax calculated at 18% / 15%	(8,568)	18%	(4,536)	15%
Effect of different tax rates of other jurisdictions	(3,598)	8%	(2,645)	9%
Effect of non-deductible expenses	(1,669)	3%	450	(1%)
Effect of change in tax rate	198	(0%)	518	(2%)
Other changes	1,297	(3%)	(1,262)	4%
	(12,340)	26%	(7,475)	25%

Deferred tax expense:

	2010	2009
Origination and reversal of temporary differences	2,943	5,954
Losses (recognised) and utilised	2,846	(4,008)
Effect of changes in tax rate	(184)	533
	5,605	2,479

Deferred tax balances:

2009	1.1.2009	Recognised in Income statement	Recognised directly in equity	Acquisitions / disposals	Exc. rate difference	Reclassified	31.12.2009
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
Receivables	676	111			1		788
Other	451	1,975	240		(129)		2,537
Total	34,487	(2,479)	313	(293)	15	(700)	31,343

2010	31.12.2009	Recognised in Income statement	Recognised directly in equity	Acquisitions / disposals	Exc. rate difference	Reclassified	31.12.2010
Goodwill	24,856	(5,447)			(468)		18,941
Intangible assets	(6,153)	868			143	346	(4,796)
Operating fixed assets	868	(534)			243	(346)	231
Tax loss carry forward	4,595	(3,808)			(57)		730
Inventories	2,397	407			(12)		2,792
Provisions	(83)	1,426			(2)		1,341
Current liabilities	1,538	1,625			(6)		3,157
Receivables	788	(51)		(1,690)	(1)		(954)
Other	2,537	(91)	(1,380)		(28)		1,038
Total	31,343	(5,605)	(1,380)	(1,690)	(188)	0	22,480

12. Earnings per share

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

	2010	2009
Net profit	35,362	22,762
Total weighted average number of ordinary shares (in thousands)	453,732	427,776
Total average number of shares including potential shares from options (in thousands)	455,019	429,750
Basic Earnings per Share (US cent)	7.79	5.32
Diluted Earnings per Share (US cent)	7.77	5.30
Cash Earnings per Share	10.90	9.70
Diluted Cash Earnings per Share	10.87	9.66

13. Additional information regarding cash flow

	2010	2009
Net profit	35,362	22,762
Items not affecting cash	13,173	21,711
Working capital provided by operating activities	48,535	44,473
(Increase) / decrease in inventories	(1,931)	13,787
(Increase) / decrease in receivables	(4,905)	4,279
Increase / (decrease) in payables	(1,704)	6,616
Net cash provided by operating activities	39,995	69,155

14. Property, plant and equipment

Operating fixed assets are specified as follows:

2009	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
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	15,056	40,337	33,667	89,060
Accumulated depreciation				
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	8,244	25,616	22,914	56,774
Carrying amount at 31 December 2009	6,812	14,721	10,753	32,286

2010	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2010	15,056	40,337	33,667	89,060
Reclassification	0	(529)	(2,546)	(3,075)
Additions	134	4,559	4,034	8,727
Acquired on acquisition of subsidiary	0	1,231	219	1,450
Additions relating to previous acquisitions	0	649	0	649
Exchange rate differences	(1,083)	(840)	(374)	(2,297)
Eliminated on disposal	0	(619)	(2,217)	(2,836)
Fully depreciated assets	0	(10,108)	(11,982)	(22,090)
At 31 December 2010	14,107	34,680	20,801	69,588
Accumulated depreciation				
At 1 January 2010	8,244	25,616	22,914	56,774
Reclassification	0	(467)	(1,207)	(1,674)
Charge for the period	382	3,725	3,300	7,407
Acquired on acquisition of subsidiary	0	655	21	676
Exchange rate differences	(528)	(502)	(212)	(1,242)
Eliminated on disposal	0	(288)	(2,064)	(2,352)
Fully depreciated assets	0	(10,108)	(11,982)	(22,090)
At 31 December 2010	8,098	18,631	10,770	37,499
Carrying Amount:				
At 31 December 2010	6,009	16,049	10,031	32,089
At 31 December 2009	6,812	14,721	10,753	32,286

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

	2010	2009
Cost of goods sold	4,055	3,594
Sales and marketing expenses	736	603
Research and development expenses	496	317
General and administrative expenses	2,120	3,666
	7,407	8,180

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 of 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

	31.12.2010
Cost	
At 1 January 2009	322,381
Arising on acquisition of subsidiaries	7,083
Exchange rate differences	5,380
At 31 December 2009	334,844
Reclass due to previous acquisitions	(1,905)
Arising on acquisition of subsidiaries	15,332
Exchange rate differences	(9,118)
At 31 December 2010	339,153
Carrying amount	
At 31 December 2010	339,153
At 31 December 2009	334,844

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

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

	Wacc %	31.12.2010	31.12.2009
Americas	8.8 / 11.7	215,309	205,312
EMEA	8.9 / 12.0	120,726	126,611
Asia	10.0 / 11.6	3,118	2,921
		339,153	334,844

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 2011 approved by management and the board of directors. The discount rate of 8.8 - 10.0% (2009: 11.6 - 12.0%) per annum was used.

Cash flows beyond 2015 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.

At balance sheet date an intangible asset with indefinite useful life is allocated to the EMEA cash-generating unit amounting to 7.5 million.

16. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
2009					
Cost					
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	29,019	15,675	35,379	15,484	95,557
Amortization					
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	28,308	12,246	6,877	12,744	60,175
Carrying amount at 31 December 2009	711	3,429	28,502	2,740	35,382
2010					
Cost					
At 1 January 2010	29,019	15,675	35,379	15,484	95,557
Reclassification	18,570	0	(16,771)	1,276	3,075
Additions	60	0	0	522	582
Additions relating to previous acquisitions	1,270	0	0	0	1,270
Fully depreciated assets	(25,370)	(3,551)	(1,736)	(6,541)	(37,198)
Exchange rate differences	(1,250)	(53)	(1,274)	(88)	(2,665)
At 31 December 2010	22,299	12,071	15,598	10,653	60,621
Amortization					
At 1 January 2010	28,308	12,246	6,877	12,744	60,175
Reclassification	5,420	(178)	(4,905)	1,337	1,674
Charge for the period	2,316	1,829	449	2,112	6,706
Fully depreciated assets	(25,370)	(3,551)	(1,736)	(6,541)	(37,198)
Exchange rate differences	(427)	(99)	(102)	(83)	(711)
At 31 December 2010	10,247	10,247	583	9,569	30,646
Carrying Amount:					
At 31 December 2010	12,052	1,824	15,015	1,084	29,975
At 31 December 2009	711	3,429	28,502	2,740	35,382

Software was previously classified within Property plant and equipment, but has been reclassified to Other intangible assets. A reclassification was also performed within Other intangible assets. This reclassification does not affect amortization percentage nor the lifetime of these assets.

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

	2010	2009
Cost of goods sold	20	8
Sales and marketing expenses	3,049	6,765
Research and development expenses	2,469	3,441
General and administrative expenses	1,168	354
	6,706	10,568

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 - 10 years
Patents	5 - 50 years
Trademarks	3 - infinitive
Software and other	3 - 10 years

The Gibaud trademarks amounting to USD 7.5 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.

17. The Consolidation

The Consolidation is split into three geographical segments, Americas, EMEA and ASIA. The main operation is carried out in the following companies:

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Americas			
Össur Americas, Inc.	USA	100%	Manufacturer, sales, distribution and services
Össur Canada, Inc.	Canada	100%	Manufacturer, sales, distribution and services
EMEA			
Össur France SAS	France	100%	Manufacturer, sales, distribution and services
Össur Europe, BV	Netherlands	100%	Sales, distribution and services
Össur Nordic, AB	Sweden	100%	Sales, distribution and services
Össur UK Ltd	UK	100%	Sales, distribution and services
Össur Iberia SA	Spain	100%	Sales, distribution and services
Orthopaedic partner Africa (Pty) Ltd	South Africa	100%	Sales, distribution and services
Asia			
Össur Asia Pacific PTY, Ltd	Australia	100%	Sales, distribution and services
Össur Prosth. & Rehabilit. Co, Ltd	China	100%	Sales, distribution and services

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

During the year the Company acquired two sales and distribution entities. It is estimated that each of the acquired entity will contribute less than 5% of the Company's total sales.

The Company established a new manufacturing entity in Mexico during the year, Ossur Mexico, S.de R.L. de C.V

18. Other financial assets

	31.12.2010	31.12.2009
Investment in associates	20	1,445
Restricted cash	1,156	1,107
Loans and receivables	2,984	1,015
	4,160	3,567

Investments in associates Name	Place of registration and operation	Ownership %	Principal activity	31.12.2010	31.12.2009
Derby Finances, SAS	France	50%	Manufacturer	20	21
Dashe Orthopedic Supplies, Inc	USA	50%	Distribution	0	1,424
				20	1,445

19. Assets classified as held for sale

At end of 2009 the Company classified its two office facilities in Aliso Viejo, California as held for sale. In March 2010 it sold one of the buildings for 2.4 million with a sale gain of 1.2 million. The book value of the remaining asset is USD 1.2 million at balance sheet date. Due to uncertainty of timing of the sale the facility has been rented out with a two year lease contract that is transferrable.

20. Bank balances and cash

	31.12.2010	31.12.2009
Bank accounts	51,048	76,618
Bankers draft received	3,277	2,818
Cash and other cash equivalents	74	395
	54,399	79,831

21. Inventories

	31.12.2010	31.12.2009
Raw material	12,984	14,397
Work in progress	3,568	3,170
Finished goods	29,709	25,959
	46,261	43,526

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 8.6 million (2009: 8.1 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 2.3 million (2009: 2.1 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The cost of inventories recognised as an expense includes 4.4 million (2009: 2.6 million) in respect of write-downs of inventory to net realisable value. Reserve for obsolete inventories at year end is 5.1 million compared to 5.4 million in 2009.

22. Accounts receivables

	31.12.2010	31.12.2009
Nominal value	60,318	47,940
Allowances for doubtful accounts	(7,147)	(3,521)
Allowances for sales return	(849)	(726)
	52,322	43,693

The average credit period on sales of goods is 44 days (2009: 43 days). Allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. Management consider the carrying amount of receivables approximates their fair value.

Aging of accounts receivables

	31.12.2010	31.12.2009
Less than three months	50,867	41,464
Three to six months	4,996	6,288
Six to nine months	1,303	79
Older than nine months	3,152	109
	60,318	47,940

Movement in the allowance for doubtful accounts

	2010	2009
At 1 January	(3,521)	(3,016)
Impairment (losses)/gains recognised on receivables	(893)	582
Arising on acquisition	(3,135)	(1,341)
Amounts written off as uncollectible	336	288
Exchange rate difference	66	(34)
At 31 December	(7,147)	(3,521)

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, management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

23. Other assets

	31.12.2010	31.12.2009
VAT refundable	2,160	1,779
Prepaid expenses	5,704	5,174
Other	3,485	3,460
	11,349	10,413

24. Issued capital

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

	Shares	Nominal value
Total share capital at period-end	454	5,068

Total shares issued and outstanding at balance sheet date is 453,732,008, unchanged from last year. The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:	Share capital	Share premium	Issued capital
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
Balance at 31 December 2010	5,068	196,929	201,997

25. Reserves

	Statutory reserve	Stock option reserve	Hedging reserve	Translation reserve	Total reserves
Balance at 1 January 2009	1,205	989	(8,053)	1,602	(4,257)
Change 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 1 January 2010	1,267	1,415	(8,480)	11,380	5,582
Change on cash flow hedges			4,457		4,457
Share option charge for the period		529			529
Loss on hedge of a net investment				2,879	2,879
Transl. diff. of foreign operations				(12,027)	(12,027)
Balance at 31 December 2010	1,267	1,944	(4,023)	2,232	1,420

26. Retained earnings

	Retained earnings
At 1 January 2009	81,003
Transferred to statutory reserves	(62)
Net profit	22,706
At 1 January 2010	103,647
Net profit	34,866
Balance at 31 December 2010	138,513

27. 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 and are valued using the Black-Scholes pricing model. The expected volatility assumptions used to value the options range from 39.3% to 42.7% and the annual discount rate is 1.9%. The options expire one month after the exercise date.

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

	Number	Grant/Issue date	Exercise date	Exercise price DKK	Fair value at grant date DKK
Issued to President and CEO	1,250,000	5.2.2007	1.12.2011	7.8	5.5
Issued to Executive Management	1,540,000	5.2.2007	1.12.2011	7.8	5.5
Issued to Management team	1,950,000	23.2.2008	23.2.2012	6.9	5.5
Issued to Executive Management	500,000	15.7.2008	15.7.2012	5.4	5.5
Issued to Management team	200,000	2.3.2009	2.3.2013	4.4	5.2
Issued to Management team	300,000	15.12.2009	15.12.2013	5.2	5.2
Issued to Management team	200,000	2.1.2010	2.1.2014	5.3	5.8
Issued to Management team	50,000	26.5.2010	26.5.2014	8.5	8.5
Issued to Management team	100,000	29.7.2010	29.7.2014	8.7	8.7
Issued to Management team	200,000	22.10.2010	22.10.2014	10.7	10.7
Total issued option contracts	6,290,000				

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.

	2010		2009	
	Number of shares (in Thousands)	Weighted average contract rate (in DKK)	Number of shares (in Thousands)	Weighted average contract rate (in DKK)
Outstanding at beginning of period	5,740	7.0	5,740	4.2
Granted during period	650	8.2	500	4.9
Forfeited during period	(100)	6.9	(500)	6.9
Outstanding at end of period	6,290	7.1	5,740	7.0

Estimated remaining cost due to the stock option contracts are 0.7 million which will be expensed over the next four years, there of 0.5 million in 2011. An expense of 0.5 million is recognised in the Income Statement for the period.

28. Borrowings

	31.12.2010		31.12.2009	
	Current	Non-current	Current	Non-current
Loans in USD	13,797	83,085	13,641	102,721
Loans in EUR	13,218	71,219	13,022	104,886
Other borrowings	1,822	4,074	519	2,675
	28,837	158,378	27,182	210,282

Aggregated maturities of borrowings are as follows:

	31.12.2010	31.12.2009
In 2011 / 2010	28,837	27,182
In 2012 / 2011	28,656	104,006
In 2013 / 2012	27,835	106,253
In 2014 / 2013	20,545	0
In 2015 / 2014	81,339	0
	187,212	237,441

In April 2010 the Company refinanced its loan facilities. The maturity and interest were renegotiated for all the facilities.

The Company's 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 all material 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 0.8 million (2009: 1.2 million) at balance sheet date.

29. Other financial liabilities

Outstanding interest rate swap contracts (cash flow hedge) at 31 December 2010 are due over the next two years. The contracts´ fair value is negative 4.6 million (2009: 10.0 million) and principal amount 82 million (2009: 147 million). The non-current portion amounts to 1.4 million and the current portion amounts to 3.2 million and is reported within other liabilities.

30. Deferred tax asset / (liability)

	31.12.2010	31.12.2009
At beginning of period	31,343	34,487
Income tax payable for the period	6,826	4,996
Calculated tax for the period	(12,340)	(7,475)
Reclassification to deferred tax asset/ (liability)	0	(700)
Arising on acquisition of a subsidiary	(1,690)	(293)
Recognised directly through equity	(1,380)	313
Deferred tax recycled from equity to income	(91)	0
Exchange rate differences	(188)	15
	22,480	31,343

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

	Assets	Liabilities	Net
Goodwill	27,781	(8,840)	18,941
Intangible assets	932	(5,728)	(4,796)
Operating fixed assets	380	(149)	231
Tax loss carry forward	730	0	730
Inventories	2,792	0	2,792
Provisions	1,341	0	1,341
Current liabilities	3,176	(19)	3,157
Receivables	1,483	(2,437)	(954)
Other	1,774	(736)	1,038
Total tax assets / (liabilities)	40,389	(17,909)	22,480
Tax asset and liabilities offsetting	(4,218)	4,218	0
	36,171	(13,691)	22,480

31. Provisions

	31.12.2010		31.12.2009	
	Current	Non-current	Current	Non-current
Warranty (i)	1,110	4,653	715	4,271
Other	1,472	65	1,971	1,473
	2,582	4,718	2,686	5,744

(i) The warranty provision represents management's best estimate of the Company's liability under warranties granted on prosthetics products, based on past experience.

	Warranty provisions	Restructuring provisions	Other provisions	Total
At 1 January 2009	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
Additional provision recognised	4,473	0	464	4,937
Utilization of provision	(3,696)	0	(2,210)	(5,906)
Exchange differences	0	0	(161)	(161)
At 31 December 2010	5,763	0	1,537	7,300
Non-current	4,653	0	65	4,718
Current	1,110	0	1,472	2,582
At 31 December 2010	5,763	0	1,537	7,300

32. Related party transactions

The Company had no material transactions with related parties during the period.

33. Accrued salaries and related expenses

Total salaries and related expense amounted to 119 million in 2010 (2009: 104 million), thereof 16.0 million (2009: 14.8) was unpaid at balance sheet date.

34. Other liabilities

	31.12.2010	31.12.2009
Accrued expenses	8,004	11,999
Accrued Royalties	1,400	1,185
Sales tax and VAT	960	934
Payable due to previous acquisition	2,324	2,324
Interest rate swap contracts, current portion	3,200	0
Other	3,261	2,075
	19,149	18,516

35. Financial instruments

35.1 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 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24, 25 and 26 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 35% determined as the proportion of equity to total assets.

The equity ratio at the period end was as follows:

	31.12.2010	31.12.2009
Equity	343,558	312,223
Total assets	607,078	628,217
Equity ratio	56.6%	49.7%

35.2 Significant accounting polices

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.

35.3 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 liquidity risk, interest rate risk, foreign exchange risk and counterparty credit risk.

The general policy is to apply natural hedging to the extent possible and prohibit any speculative trading of financial instruments. 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.

35.4 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.

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

	Liabilities		Assets	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
USD	131,845	148,144	73,975	75,052
EUR	100,735	137,838	56,452	62,419
DKK	27	0	15,552	28,563
GBP	1,352	1,664	6,566	4,407
SEK	3,265	3,055	6,928	5,542
CAD	566	532	3,006	2,445
Other	4,740	5,307	7,213	4,910
	242,529	296,540	169,690	183,338

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.

	EUR [i]		ISK [ii]	
	2010	2009	2010	2009
Profit or loss	1,841	2,514	(2,267)	(2,488)
Other equity	8,716	7,792	(189)	305

(i) 27% (2009: 30%) of the Company´s cost is in EUR against 31% (2009: 35%) of its total income causing an increase in profit if the USD decreases against the EUR.

(ii) 10% (2009: 9%) of the Company´s operating cost is in ISK against 0.4% (2009: 0.3%) of its income.

35.5 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 made to swap floating interest rates to fixed with an average weighted interest rate of 4.88% for periods up to 2012 are outstanding at year end with nominal values of USD 84 million (2009: USD 147 million). In December 2010 the Company broke the cash flow hedge relationship of the EUR part of the interest rate swaps. The swaps' principal amount was USD 39 million (2009: USD 49 million) and with a negative market value of USD 0.9 million which was booked through the Income Statement in December 2010. At year end the fair value of the remaining swaps amounted to negative USD 5.4 million (2009: negative USD 10.0 million). The fair value of the interest rate swaps at the reporting date is determined by the present value of the expected future cash flows. Changes in fair value are realized through equity. The interest swaps are the Company´s sole derivative financial liability valued at fair value and belong to level 2 in the fair value hierarchy in accordance to IFRS´s 7.27A.

35.6 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 10.0 million (2009: USD 10.8 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
2010					
Borrowings	7.01%	42,279	185,863	0	228,142
Non-interest bearing liabilities	-	50,756	0	0	50,756
		93,035	185,863	0	278,898
2009					
Borrowings	5.69%	39,994	225,314	0	265,308
Non-interest bearing liabilities	-	49,081	0	0	49,081
		89,075	225,314	0	314,389

35.7 Credit risk management

The Company's counterparty credit risks arise mainly from short-term investment of liquid assets and the market-to-market effect of interest rate swaps.

The Company reviews the credit quality of counterparties. The Company's policy is that all counterparties have at least an A3 credit rating from Moody's or A minus from Standard & Poors.

The Company does not undertake any trading activity in financial instruments.

Trade receivables consist of a large number of customers spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

36. Operating lease arrangements

Payments recognised as an expense:

	2010	2009
Minimum lease payments	8,533	7,807

Non-cancellable operating lease commitments

	31.12.2010	31.12.2009
Not longer than 1 years	9,614	8,485
Longer than 1 period and not longer than 5 years	26,349	24,429
Longer than 5 years	10,236	11,217
	46,199	44,131

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. Forty two rental agreements are in place for premises in Reykjavik, Netherlands, Germany, Canada, Australia, Sweden, United Kingdom, China, South Africa and the United States. The leases expire in the periods 2011-2017.

37. 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.

38. Insurance

	Insurance value	Book value
Fixed assets and inventories	155,845	87,052

The Company has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 401 million (2009: 349 million). In addition the Company has a product & professional liability insurance with a USD 30 million limit and a product recall insurance with a USD 2 million limit. The deductable amount on the product & professional liability and product recall insurances is USD 50 thousand.

39. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on 7 February 2011.

Unaudited information

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

Quarterly statements

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	TOTAL 2010
Net sales	94,612	87,437	90,021	86,468	358,538
Cost of goods sold	(36,078)	(32,991)	(34,467)	(32,380)	(135,916)
Gross profit	58,534	54,446	55,554	54,088	222,622
Other income	(25)	130	64	1,418	1,587
Sales and marketing expenses	(25,844)	(22,980)	(23,645)	(24,763)	(97,232)
Research and development expenses	(5,148)	(4,743)	(4,738)	(5,102)	(19,731)
General and administrative expenses	(13,157)	(11,122)	(11,224)	(11,498)	(47,001)
Profit from operations	14,360	15,731	16,011	14,143	60,245
Net financial income /expenses	(4,186)	(3,890)	(3,802)	(3,761)	(15,639)
Net exchange rate difference	1,155	(6,514)	5,692	2,763	3,096
Total financial income/(expenses)	(3,031)	(10,404)	1,890	(998)	(12,543)
Profit before tax	11,329	5,327	17,901	13,145	47,702
Income tax	(3,268)	(1,312)	(4,308)	(3,452)	(12,340)
Net profit	8,061	4,015	13,593	9,693	35,362
EBITDA	17,876	19,082	19,568	17,832	74,358

Earnings per share Q4

	Q4 2010	Q4 2009
Net profit	8,061	8,074
Total average number of shares outstanding during Q4 (in thousands)	453,732	442,001
Total average number of shares including potential shares (in thousands)	455,502	447,935
Basic Earnings per Share (US cent)	1.78	1.83
Diluted Earnings per Share (US cent)	1.77	1.80
Cash Earnings per Share	2.55	2.75
Diluted Cash Earnings per Share	2.54	2.72