

# Össur hf.

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Condensed Consolidated  
Financial Statements

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**September 30 2011**

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Össur hf.  
Grjóthálsi 5  
110 Reykjavík  
Id-no. 560271-0189

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## Table of Contents

Statement by the Board of Directors and President and CEO	2
Financial Ratios	3
Consolidated Income Statements	4
Consolidated Statements of Comprehensive Income	5
Consolidated Balance Sheets	6
Consolidated Statements of Cash Flows	8
Consolidated Statements of Changes in Equity	9
Notes to the Condensed Consolidated Financial Statements	10

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# Statement by the Board of Directors and President and CEO

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The Condensed Interim Consolidated Financial Statements of Össur hf. for the period from 1 January to 30 September 2011 consist of the Financial Statements of Össur hf. and its subsidiaries. The Financial Statements are prepared in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34 as adopted by the EU.

The total sales of the Össur Consolidation amounted to USD 303.3 million and the net profit amounted to USD 29.0 million. According to the Balance Sheets the total assets of the Össur Consolidation amounted to USD 583.4 million at the end of period, liabilities were 219.3 million, and equity was 364.1 million.

It is our opinion that these Condensed Interim Consolidated Financial Statements present all the information necessary to give a true and fair view of the Company's assets and liabilities, financial position at 30 September 2011 and operating performance of the period ended 30 September 2011.

The Board of Directors and the President and CEO of Össur hf. have today discussed the Condensed Interim Consolidated Financial Statements for the period from 1 January to 30 September 2011 and confirm them by means of their signatures.

Reykjavik, 27 October 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

		YTD 2011	YTD 2010	2010	2009	2008
<b>Income Statement</b>						
Net sales	USD '000	303,334	263,926	358,538	330,580	346,835
Gross profit	USD '000	188,552	164,088	222,622	201,815	214,203
Operating expenses <sup>2</sup>	USD '000	139,799	119,815	163,964	154,071	167,678
Profit from operations	USD '000	49,653	45,885	60,245	48,240	55,958
Net profit	USD '000	28,976	27,301	35,362	22,762	28,488
EBITDA	USD '000	59,253	56,482	74,358	66,988	79,440
<b>Balance Sheet</b>						
Total assets	USD '000	583,460	605,384	607,078	628,217	603,778
Equity	USD '000	364,139	334,554	343,558	312,223	249,648
Net interest-bearing debt (NIBD)	USD '000	123,254	128,493	132,816	157,633	234,281
<b>Cash Flow</b>						
Cash generated by operations	USD '000	48,145	47,697	64,331	85,770	71,460
Cash provided by operating activities	USD '000	32,518	30,842	39,995	69,155	52,835
Cash flows from investing activities	USD '000	(13,456)	(7,019)	(18,987)	(16,423)	(6,648)
Cash flows from financing activities	USD '000	(57,778)	(37,331)	(45,594)	(4,284)	(30,610)
Free Cash flow	USD '000	20,556	27,634	33,389	60,238	46,040
<b>Key figures</b>						
Sales Growth USD	%	14.9	8.7	8.5	(4.7)	4.5
Operating margin	%	16.4	17.4	16.8	14.6	16.0
EBITDA margin	%	19.5	21.4	20.7	20.3	22.9
Equity ratio	%	62.4	55.3	56.6	49.7	41.3
Ratio of net debt to EBITDA <sup>1</sup>		1.6	1.7	1.8	2.4	2.9
Ratio of debt to EBITDA <sup>1</sup>		1.8	2.6	2.5	3.5	3.3
Current ratio		1.7	2.3	1.9	2.3	1.1
Return on equity <sup>1</sup>	%	10.3	11.4	10.2	8.1	11.0
<b>Market</b>						
Market value of equity	USD '000	658,569	857,212	777,593	529,151	349,263
Number of shares	Millions	454	454	454	454	423
Price/earnings ratio, (P/E) <sup>1</sup>		18.3	24.6	22.3	23.2	12.3
Diluted EPS <sup>1</sup>	US Cent	8.17	7.84	7.77	5.30	6.73
Diluted Cash EPS <sup>1</sup>	US Cent	11.03	11.10	10.87	9.66	12.29

## Notes

1. Financial ratios for YTD 2011 and YTD 2010 are based on operations for the preceding 12 months.
2. Excluding other income.

# Consolidated Income Statements for the period 1.1 - 30.9.2011 and 1.1 - 30.9.2010

	Notes	2011 YTD	2010 YTD	2011 Q3	2010 Q3
Net sales .....	4	303,334	263,926	101,315	87,437
Cost of goods sold .....		<u>(114,782)</u>	<u>(99,838)</u>	<u>(37,596)</u>	<u>(32,991)</u>
<b>Gross profit</b>		188,552	164,088	63,719	54,446
Other income .....	6	900	1,612	190	130
Sales and marketing expenses .....		(82,509)	(71,388)	(27,197)	(22,980)
Research and development expenses .....		(14,497)	(14,583)	(4,811)	(4,743)
General and administrative expenses .....		<u>(42,793)</u>	<u>(33,844)</u>	<u>(14,302)</u>	<u>(11,122)</u>
<b>Profit from operations</b>		49,653	45,885	17,599	15,731
Financial income .....		174	280	108	130
Financial expenses .....		(8,575)	(11,733)	(2,634)	(4,020)
Net exchange rate difference .....		<u>(1,661)</u>	<u>1,941</u>	<u>(417)</u>	<u>(6,514)</u>
Net financial income / (expenses)	7	<u>(10,062)</u>	<u>(9,512)</u>	<u>(2,943)</u>	<u>(10,404)</u>
<b>Profit before tax</b>		39,591	36,373	14,656	5,327
Income tax .....	8	<u>(10,615)</u>	<u>(9,072)</u>	<u>(4,010)</u>	<u>(1,312)</u>
<b>Net profit</b>		<u>28,976</u>	<u>27,301</u>	<u>10,646</u>	<u>4,015</u>
		Attributable to:			
Owners of the Company .....		27,970	26,895	10,394	3,896
Non-controlling interests .....		<u>1,006</u>	<u>406</u>	<u>252</u>	<u>119</u>
		<u>28,976</u>	<u>27,301</u>	<u>10,646</u>	<u>4,015</u>
<b>Earnings per Share</b>					
Basic Earnings per Share .....		<u>6.41</u>	<u>6.06</u>	<u>2.37</u>	<u>0.88</u>
Diluted Earnings per Share .....		<u>6.39</u>	<u>6.05</u>	<u>2.36</u>	<u>0.88</u>

# Consolidated Statements of Comprehensive Income for the period 1.1 - 30.9.2011 and 1.1 - 30.9.2010

	Notes	2011 YTD	2010 YTD	2011 Q3	2010 Q3
<b>Net profit</b>		28,976	27,301	10,646	4,015
<b>Other comprehensive income</b>					
Gain / (loss) on hedge of a net investment in foreign operations.....		(1,175)	2,644	0	(4,067)
Change on cash flow hedges .....		477	2,388	(127)	468
Transl. difference of shares in foreign operations.....		1,200	(9,111)	(10,921)	22,209
Income tax relating to components of other comprehensive income.....		(536)	(806)	0	462
Other comprehensive income (net of tax).....		(34)	(4,885)	(11,048)	19,072
<b>Total comprehensive income</b>		<u>28,942</u>	<u>22,416</u>	<u>(402)</u>	<u>23,087</u>
	Attributable to:				
Owners of the Company .....		27,936	22,010	(654)	22,968
Non-controlling interests .....		1,006	406	252	119
		<u>28,942</u>	<u>22,416</u>	<u>(402)</u>	<u>23,087</u>

# Consolidated Balance Sheets

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## Assets

	Notes	30.9.2011	31.12.2010
<b>Non-current assets</b>			
Property, plant and equipment .....	11	35,671	32,089
Goodwill .....	12	339,345	339,153
Other intangible assets .....	13	29,084	29,975
Other financial assets .....	15	5,643	4,160
Deferred tax asset .....	26	36,767	36,171
		<u>446,510</u>	<u>441,548</u>
<b>Current assets</b>			
Inventories .....	17	49,282	46,261
Accounts receivables .....	18	60,551	52,322
Other assets .....	19	9,812	11,349
Assets classified as held for sale .....	16	1,199	1,199
Bank balances and cash .....		16,106	54,399
		<u>136,950</u>	<u>165,530</u>
<b>Total assets</b>		<u><u>583,460</u></u>	<u><u>607,078</u></u>

## 30 September 2011 and 31 December 2010

### Equity and liabilities

	Notes	30.9.2011	31.12.2010
<b>Equity</b>			
Issued capital .....	20	193,791	201,997
Reserves .....	21	1,775	1,420
Retained earnings .....	22	166,483	138,513
Equity attributable to owners of the Company		<u>362,049</u>	<u>341,930</u>
Non-controlling interest in equity .....		2,090	1,628
<b>Total equity</b>		<u>364,139</u>	<u>343,558</u>
<b>Non-current liabilities</b>			
Borrowings .....	24	118,763	158,378
Deferred tax liabilities .....	26	11,656	13,691
Provisions .....	27	4,225	4,718
Other financial liabilities .....	25	2,266	1,358
		<u>136,910</u>	<u>178,145</u>
<b>Current liabilities</b>			
Borrowings .....	24	20,597	28,837
Accounts payable .....		20,335	15,462
Taxes payable .....		4,626	3,339
Provisions .....	27	4,038	2,582
Accrued salaries and related expenses .....		17,196	16,006
Other liabilities .....	29	15,619	19,149
		<u>82,411</u>	<u>85,375</u>
<b>Total equity and liabilities</b>		<u>583,460</u>	<u>607,078</u>



# Consolidated Statements of Cash Flows

## for the period 1.1 - 30.9.2011 and 1.1 - 30.9.2010

	Notes	2011 YTD	2010 YTD	2011 Q3	2010 Q3
<b>Cash flows from operating activities</b>					
Profit from operations .....		49,653	45,885	17,599	15,731
Depreciation and amortization .....	11, 13	9,600	10,597	3,462	3,351
(Gain) / loss on disposal of assets .....		(109)	(1,051)	0	0
Change in provisions .....		955	(389)	155	192
Changes in operating assets and liabilities .....		(11,954)	(7,345)	(3,095)	(1,853)
<b>Cash generated by operations</b>		<u>48,145</u>	<u>47,697</u>	<u>18,121</u>	<u>17,421</u>
Interest received .....		143	110	140	32
Interest paid .....	10	(10,944)	(15,125)	(1,537)	(4,026)
Taxes paid .....		(4,824)	(1,840)	(1,924)	(886)
<b>Net cash provided by operating activities</b>		<u>32,520</u>	<u>30,842</u>	<u>14,800</u>	<u>12,541</u>
<b>Cash flows from investing activities</b>					
Purchase of fixed and intangible assets .....	11, 13	(12,151)	(5,854)	(4,626)	(1,762)
Proceeds from sale of fixed assets .....		189	2,646	0	97
Acquisition of subsidiaries .....		0	(2,219)	0	(178)
Changes in financial assets .....		(1,494)	(1,592)	250	(229)
		<u>(13,456)</u>	<u>(7,019)</u>	<u>(4,376)</u>	<u>(2,072)</u>
<b>Cash flows from financing activities</b>					
Proceeds from long-term borrowings .....		158,419	(132)	0	1,155
Repayments of long-term borrowings .....		(207,447)	(36,805)	(14,154)	(13,080)
Dividends from subsidiaries paid to non-controlling interests .....		(545)	(394)	(127)	(98)
Purchased treasury shares .....		(8,205)	0	(1,616)	0
		<u>(57,778)</u>	<u>(37,331)</u>	<u>(15,897)</u>	<u>(12,023)</u>
<b>Net change in cash</b> .....		(38,714)	(13,508)	(5,473)	(1,554)
<b>Effects of foreign exch rate adjustments</b> ...		421	(542)	(1,117)	2,034
<b>Cash at beginning of period</b> .....		<u>54,399</u>	<u>79,831</u>	<u>22,696</u>	<u>65,301</u>
<b>Cash at end of period</b> .....		<u>16,106</u>	<u>65,781</u>	<u>16,106</u>	<u>65,781</u>
Additional information regarding cash flow .....	10				

## Consolidated Statements of Changes in Equity for the period ended 30 September 2011

	Share capital	Share premium	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Accumulated profits	Attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 2010.....	5,068	196,929	1,267	1,415	(8,480)	11,380	103,647	311,226	997	312,223
Net profit.....							26,895	26,895	406	27,301
Gain on hedge of a net investment in foreign operations net of tax.....						2,744		2,744		2,744
Change in cash flow hedges net of tax.....					1,959			1,959		1,959
Translation difference of shares in foreign operations.....						(9,588)		(9,588)		(9,588)
Total comprehensive income for the period.....	0	0	0	0	1,959	(6,844)	26,895	22,010	406	22,416
Share option charge for the period.....				309				309		309
Payment of dividends.....								0	(394)	(394)
Balance at 30 September 2010.....	5,068	196,929	1,267	1,724	(6,521)	4,536	130,542	333,545	1,009	334,554
Balance at 1 January 2011.....	5,068	196,929	1,267	1,944	(4,023)	2,232	138,513	341,930	1,628	343,558
Net profit.....							27,970	27,970	1,006	28,976
Loss on hedge of a net investment in foreign operations net of tax.....						(1,175)		(1,175)		(1,175)
Change in cash flow hedges.....					(59)			(59)		(59)
Translation difference of shares in foreign operations.....						1,200		1,200		1,200
Total comprehensive income for the period.....	0	0	0	0	(59)	25	27,970	27,936	1,006	28,942
Payment of dividends.....								0	(545)	(545)
Share option charge for the period.....				389				389		389
Purchased treasury shares.....	(44)	(8,162)						(8,206)		(8,206)
Balance at 30 September 2011.....	5,024	188,767	1,267	2,333	(4,082)	2,257	166,483	362,049	2,089	364,139

# Notes to the Condensed 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, Switzerland, S-Africa, China and Hong Kong in addition to the Iceland-based parent company.

The main production of the Company is conducted at Össur hf. in Iceland, Össur France Group in St. Etienne and Trevoux 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. Summary of Significant Accounting Policies

### 2.1 Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Company's Annual Financial Statements for the period ended 31 December 2010.

### 2.2 Basis of preparation

The Condensed Interim Consolidated Financial Statements have been prepared under the historical cost basis except for the revaluation of financial instruments. 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 2010.

## 3. Quarterly statements

	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Net sales .....	101,315	105,024	96,995	94,612	87,437
Cost of goods sold .....	(37,596)	(41,628)	(35,558)	(36,078)	(32,991)
<b>Gross profit</b> .....	63,719	63,396	61,437	58,534	54,446
Other income .....	190	654	56	(25)	130
Sales and marketing expenses .....	(27,197)	(27,903)	(27,409)	(25,844)	(22,980)
Research and development expenses .....	(4,811)	(5,065)	(4,621)	(5,148)	(4,743)
General and administrative expenses .....	(14,302)	(14,186)	(14,305)	(13,157)	(11,122)
<b>Profit from operations</b> .....	17,599	16,896	15,158	14,360	15,731
Net financial income /expenses .....	(2,526)	(2,444)	(3,431)	(4,186)	(3,890)
Net exchange rate difference .....	(417)	(382)	(862)	1,155	(6,514)
Total financial income/(expenses) .....	(2,943)	(2,826)	(4,293)	(3,031)	(10,404)
<b>Profit before tax</b> .....	14,656	14,070	10,865	11,329	5,327
Income tax .....	(4,010)	(3,762)	(2,843)	(3,268)	(1,312)
<b>Net profit</b> .....	10,646	10,308	8,022	8,061	4,015
EBITDA .....	21,061	19,922	18,270	17,876	19,082

# Notes to the Condensed Consolidated Financial Statements

## 4. Net sales

Specified according to geographical segments:

	YTD 2011	YTD 2010	Q3 2011	Q3 2010
Americas.....	159,332	136,303	55,685	47,781
EMEA.....	130,537	115,661	40,714	35,078
Asia.....	13,465	11,962	4,916	4,578
	<u>303,334</u>	<u>263,926</u>	<u>101,315</u>	<u>87,437</u>

Specified according to product lines:

Bracing and Supports.....	159,003	130,806	52,390	43,265
Prosthetics.....	130,209	119,398	44,704	40,254
Compression Therapy (Phlebology).....	13,364	12,359	4,159	3,459
Other products.....	758	1,363	62	459
	<u>303,334</u>	<u>263,926</u>	<u>101,315</u>	<u>87,437</u>

Specified according to currency:

US Dollar, USD.....	157,316	131,524	55,418	46,358
Euro, EUR.....	92,417	86,546	28,356	26,173
British Pound, GBP.....	14,306	13,799	4,881	4,630
Canadian Dollar, CAD.....	13,325	11,943	4,303	3,899
Swedish Krona, SEK.....	7,489	9,199	2,165	2,847
Norwegian Krona, NOK.....	6,603	5,499	2,191	1,761
Australian Dollar, AUD.....	3,489	2,684	1,233	898
Icelandic Krona, ISK.....	830	967	271	363
Other.....	7,559	1,765	2,497	508
	<u>303,334</u>	<u>263,926</u>	<u>101,315</u>	<u>87,437</u>

# Notes to the Condensed Consolidated Financial Statements

## 5. Segment information

2011	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2011	YTD 2011	YTD 2011	YTD 2011	YTD 2011
<b>Sales</b>					
External sales.....	159,332	130,537	13,465	0	303,334
Inter-segment sales.....	29,569	68,509	0	(98,078)	0
Total sales.....	<u>188,901</u>	<u>199,046</u>	<u>13,465</u>	<u>(98,078)</u>	<u>303,334</u>
<b>Result</b>					
Segment result.....	<u>33,482</u>	<u>11,468</u>	<u>4,703</u>	<u>0</u>	49,653
Financial income/(expenses).....					<u>(10,062)</u>
Profit before tax.....					39,591
Income tax.....					<u>(10,615)</u>
Net profit.....					<u>28,976</u>
<b>Balance sheet 30.9.2011</b>					
<b>Assets</b>					
Segment assets.....	518,125	593,979	10,032	(538,676)	<u>583,460</u>
<b>Liabilities</b>					
Segment liabilities.....	304,384	238,039	4,103	(327,205)	<u>219,321</u>
<b>Other information</b>					
Capital additions.....	4,459	7,562	130	0	12,151
Depreciation and amortization.....	3,009	6,371	220	0	9,600

Sales of approximately 18.5 million USD (YTD 2010: 17.9 million USD) arose from sales to the Company's largest customer.

# Notes to the Condensed Consolidated Financial Statements

2010	<u>Americas</u> <u>YTD 2010</u>	<u>EMEA</u> <u>YTD 2010</u>	<u>Asia</u> <u>YTD 2010</u>	<u>Eliminations</u> <u>YTD 2010</u>	<u>Consolidated</u> <u>YTD 2010</u>
<b>Sales</b>					
External sales.....	136,303	115,661	11,962	0	263,926
Inter-segment sales.....	19,296	62,040	0	(81,336)	0
Total sales.....	<u>155,599</u>	<u>177,701</u>	<u>11,962</u>	<u>(81,336)</u>	<u>263,926</u>
<b>Result</b>					
Segment result.....	<u>27,749</u>	<u>14,263</u>	<u>3,873</u>	<u>0</u>	45,885
Financial income/(expenses).....					<u>(9,512)</u>
Profit before tax.....					36,373
Income tax.....					<u>(9,072)</u>
Net profit.....					<u>27,301</u>
<b>Balance sheet 31.12.2010</b>					
<b>Assets</b>					
Segment assets.....	406,359	856,458	13,167	(668,906)	<u>607,078</u>
<b>Liabilities</b>					
Segment liabilities.....	270,710	470,231	6,025	(483,446)	<u>263,520</u>
<b>Other information YTD</b>					
Capital additions.....	3,073	2,693	88	0	5,854
Depreciation and amortization.....	3,711	6,738	148	0	10,597

# Notes to the Condensed Consolidated Financial Statements

## 6. Other income

Included in other income is 0.6 million received when settling a patent infringement. The 2010 figures includes a gain from sale of an office building in Alisio Viejo, California, amounting to 1.2 million.

## 7. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	YTD 2011	YTD 2010	Q3 2011	Q3 2010
<b>Financial income</b>				
Interests on bank deposits.....	47	86	11	13
Other financial income.....	127	194	97	117
	<u>174</u>	<u>280</u>	<u>108</u>	<u>130</u>
<b>Financial expenses</b>				
Interest on loans.....	(8,140)	(11,417)	(2,583)	(3,947)
Other financial expenses.....	(435)	(316)	(51)	(73)
	<u>(8,575)</u>	<u>(11,733)</u>	<u>(2,634)</u>	<u>(4,020)</u>
Net exchange rate differences.....	(1,661)	1,941	(417)	(6,514)
Net financial income / (expenses).....	<u>(10,062)</u>	<u>(9,512)</u>	<u>(2,943)</u>	<u>(10,404)</u>

## 8. Income tax

Income tax is specified as follows:

	YTD 2011	YTD 2010	Q3 2011	Q3 2010
Current tax expenses.....	(12,248)	(6,575)	(4,445)	(2,979)
Deferred tax expenses.....	1,633	(2,568)	435	1,867
Deferred tax reclassified from equity to income.....	0	71	0	(200)
	<u>(10,615)</u>	<u>(9,072)</u>	<u>(4,010)</u>	<u>(1,312)</u>

	YTD 2011		YTD 2010	
	Amount	%	Amount	%
Profit before taxes.....	<u>39,591</u>		<u>36,373</u>	
Income tax calculated at 20% / 18% .....	(7,918)	20%	(6,459)	18%
Effect of different tax rates of other jurisdictions.....	(2,873)	7%	(3,052)	8%
Effect of non-deductible expenses / non taxable income.....	248	(1%)	(376)	1%
Other changes.....	(72)	0%	815	(2%)
	<u>(10,615)</u>	<u>27%</u>	<u>(9,072)</u>	<u>25%</u>

# Notes to the Condensed Consolidated Financial Statements

## 9. Earnings per share

	YTD 2011	YTD 2010	Q3 2011	Q3 2010
Net profit.....	28,976	27,301	10,646	4,015
Total weighted average number of ordinary shares (in thousands).....	452,137	450,775	449,319	453,732
Total average number of shares including potential shares from options (in thousands).....	453,245	451,462	450,197	454,133
Basic Earnings per Share (US cent) .....	6.41	6.06	2.37	0.88
Diluted Earnings per Share (US cent) .....	6.39	6.05	2.36	0.88
Cash Earnings per Share .....	8.50	8.41	3.10	1.62
Diluted Cash Earnings per Share .....	8.48	8.39	3.10	1.62

## 10. Additional information regarding cash flow

	YTD 2011	YTD 2010	Q3 2011	Q3 2010
Net profit .....	28,976	27,301	10,646	4,015
Items not affecting cash .....	9,879	8,643	6,545	6,866
Working capital provided by operating activities .....	38,855	35,944	17,191	10,881
(Increase) / decrease in inventories .....	(3,286)	(667)	215	(2,071)
(Increase) / decrease in receivables .....	(8,033)	(5,647)	(1,248)	369
Increase / (decrease) in payables .....	4,984	1,212	(1,358)	3,362
Net cash provided by operating activities .....	32,520	30,842	14,800	12,541

### Interest paid:

As part of the refinancing, Össur closed its interest rate swap agreement and paid the outstanding fair value of USD 5.4 million. The hedging relationship remains effective and the cost will be expensed in the next five quarters.



# Notes to the Condensed Consolidated Financial Statements

## 11. Property, plant and equipment

Operating fixed assets are specified as follows:

2011	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>Cost</b>				
At 1 January 2011.....	14,107	34,680	20,801	69,588
Additions.....	206	3,924	5,927	10,057
Exchange rate differences.....	133	2	(169)	(34)
Eliminated on disposal.....	0	(396)	(442)	(838)
Fully depreciated assets.....	0	(688)	(1,804)	(2,492)
At 30 September 2011.....	<u>14,446</u>	<u>37,522</u>	<u>24,313</u>	<u>76,281</u>
<b>Accumulated depreciation</b>				
At 1 January 2011.....	8,098	18,631	10,770	37,499
Charge for the period.....	312	2,959	2,872	6,143
Exchange rate differences.....	67	62	(0)	129
Eliminated on disposal.....	0	(260)	(409)	(669)
Fully depreciated assets.....	0	(688)	(1,804)	(2,492)
At 30 September 2011.....	<u>8,477</u>	<u>20,704</u>	<u>11,429</u>	<u>40,610</u>
<b>Carrying Amount:</b>				
At 30 September 2011.....	<u>5,969</u>	<u>16,818</u>	<u>12,884</u>	<u>35,671</u>
At 31 December 2010.....	<u>6,009</u>	<u>16,049</u>	<u>10,031</u>	<u>32,089</u>

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

	YTD 2011	YTD 2010
Cost of goods sold .....	3,134	3,002
Sales and marketing expenses .....	465	399
Research and development expenses.....	450	377
General and administrative expenses .....	2,094	1,591
	<u>6,143</u>	<u>5,369</u>

## 12. Goodwill

	30.9.2011
<b>Cost</b>	
At 1 January 2010.....	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.....	<u>339,153</u>
Exchange rate differences.....	192
At 30 September 2011.....	<u>339,345</u>
<b>Carrying amount</b>	
At 30 September 2011.....	<u>339,345</u>
At 31 December 2010.....	<u>339,153</u>

# Notes to the Condensed Consolidated Financial Statements

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

	30.9.2011	31.12.2010
Americas.....	214,604	215,309
EMEA.....	121,701	120,726
Asia.....	3,041	3,118
	<u>339,345</u>	<u>339,153</u>

## 13. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>Cost</b>					
At 1 January 2011.....	22,299	12,071	15,598	10,653	60,621
Additions.....	0	48	0	2,046	2,094
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	151	0	299	162	612
At 30 September 2011.....	<u>22,450</u>	<u>10,719</u>	<u>15,897</u>	<u>12,807</u>	<u>61,873</u>
<b>Amortization</b>					
At 1 January 2011.....	10,247	10,247	583	9,569	30,646
Charge for the period.....	1,716	1,026	150	565	3,457
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	10	(2)	88	44	140
At 30 September 2011.....	<u>11,973</u>	<u>9,871</u>	<u>821</u>	<u>10,124</u>	<u>32,789</u>
<b>Carrying Amount:</b>					
At 30 September 2011.....	<u>10,477</u>	<u>848</u>	<u>15,076</u>	<u>2,683</u>	<u>29,084</u>
At 31 December 2010.....	<u>12,052</u>	<u>1,824</u>	<u>15,015</u>	<u>1,084</u>	<u>29,975</u>

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

	YTD 2011	YTD 2010
Cost of goods sold.....	16	15
Sales and marketing expenses.....	2,020	2,300
Research and development expenses.....	1,057	2,062
General and administrative expenses.....	364	851
	<u>3,457</u>	<u>5,228</u>

# Notes to the Condensed Consolidated Financial Statements

## 14. 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
<b>Americas</b>			
Össur Americas, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Össur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
<b>EMEA</b>			
Össur Europe BV.....	Netherlands	100%	Sales, distribution and services
Gibaud SAS.....	France	100%	Manufacturer, 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
Össur South Africa (Pty) Ltd.....	South Africa	100%	Sales, distribution and services
<b>Asia</b>			
Össur Asia Pacific PTY, Ltd.....	Australia	100%	Sales, distribution and services
Össur Prosth. & Rehabilit. Co, Ltd.....	China	100%	Sales, distribution and services
Össur Hong Kong, Ltd.....	Hong Kong	100%	Sales, distribution and services

The Group established Össur Americas LP and Össur Finance AG during the period. The Consolidation is financed through these two companies.

## 15. Other financial assets

	30.9.2011	31.12.2010
Investment in associates.....	2,061	20
Restricted cash.....	1,238	1,156
Loans and receivables.....	2,344	2,984
	<u>5,643</u>	<u>4,160</u>

## 16. Assets classified as held for sale

At end of 2010 the Company classified its office facilities in Aliso Viejo, California as held for sale. The book value is USD 1.2 million at balance sheet date.

# Notes to the Condensed Consolidated Financial Statements

## 17. Inventories

	30.9.2011	31.12.2010
Raw material.....	11,021	12,984
Work in progress.....	3,059	3,568
Finished goods .....	35,202	29,709
	<u>49,282</u>	<u>46,261</u>

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 8.6 million (YTD 2010: 7.7 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 2.8 million (YTD 2010: 1.8 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

## 18. Accounts receivables

	30.9.2011	31.12.2010
Nominal value.....	63,276	54,790
Allowances for doubtful accounts.....	(1,512)	(1,619)
Allowances for sales return.....	(1,213)	(849)
	<u>60,551</u>	<u>52,322</u>

## 19. Other assets

	30.9.2011	31.12.2010
VAT refundable.....	2,723	2,160
Prepaid expenses.....	4,608	5,704
Other.....	2,481	3,485
	<u>9,812</u>	<u>11,349</u>

## 20. Issued capital

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

	Shares	Nominal value
Total share capital at 30 September 2011.....	453,750	5,068
Treasury shares at period-end.....	(5,018)	(44)
	<u>448,732</u>	<u>5,024</u>

During the period the company purchased 5.0 million of treasury shares to meet its obligation under share option contracts. Total shares issued at balance sheet date is 453,750,008. The nominal value of each share is one Icelandic krona.

	Share capital	Share premium	Issued capital
Balance at 1 January 2010.....	5,068	196,929	201,997
Balance at 1 January 2011.....	5,068	196,929	201,997
Purchased treasury shares.....	(44)	(8,162)	(8,206)
Balance at 30 September 2011.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>

# Notes to the Condensed Consolidated Financial Statements

## 21. Reserves

	Statutory reserve	Share option reserve	Hedging reserve	Translation reserve	Total reserves
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
Change in hedge of a net investment.....				2,879	2,879
Transl. diff. of foreign operations.....				(12,027)	(12,027)
Balance at 1 January 2011.....	1,267	1,944	(4,023)	2,232	1,420
Change on cash flow hedges.....			(59)		(59)
Share option charge for the period.....		389			389
Change in hedge of a net investment.....				(1,175)	(1,175)
Transl. diff. of foreign operations.....				1,200	1,200
Balance at 30 September 2011.....	1,267	2,333	(4,082)	2,257	1,775

## 22. Retained earnings

	Retained earnings
At 1 January 2010.....	103,647
Net profit.....	34,866
At 1 January 2011.....	138,513
Net profit.....	27,970
Balance at 30 September 2011.....	166,483

## 23. Share option contracts and obligations to increase share capital

The following share-based payment arrangements were in existence at balance sheet date:

	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 .....	1,750,000	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 .....	300,000	2.1.2010	2.1.2014	5.3	5.8
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
Issued to Management team .....	100,000	21.2.2011	21.2.2014	9.5	9.0
Issued to Management team .....	100,000	22.3.2011	22.3.2014	8.7	8.6
Total issued option contracts.....	6,340,000				

Estimated remaining cost due to the share option contracts are 0.4 million (2010: 0.8). An expense of 0.4 million (2010: 0.3) is recognised in the Income Statement for the period.

# Notes to the Condensed Consolidated Financial Statements

## 24. Borrowings

	30.9.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,626	77,363	13,797	83,085
Loans in EUR.....	6,477	37,345	13,218	71,219
Other borrowings.....	1,494	4,055	1,822	4,074
	<u>20,597</u>	<u>118,763</u>	<u>28,837</u>	<u>158,378</u>

Aggregated maturities of borrowings are as follows:

	30.9.2011	31.12.2010
In 1.10.2011 - 30.9.2012 / 2011.....	20,597	28,837
In 1.10.2012 - 30.9.2013 / 2012.....	21,026	28,656
In 1.10.2013 - 30.9.2014 / 2013.....	19,970	27,835
In 1.10.2014 - 30.9.2015 / 2014.....	20,342	20,545
In 1.10.2015 - 30.9.2016 / 2015.....	57,425	81,342
	<u>139,360</u>	<u>187,215</u>

In March Össur signed an agreement with three international banks, ING Bank, Nordea and SEB on long-term financing in the amount of USD 231 million, thereof USD 111 million revolving credit facility. The financing is for five years, maturing in 2016. Interest terms are subject to a margin grid, changing in line with financial leverage. The initial average interest terms are 145 bps + LIBOR/EURIBOR. Shares in Össur hf. and major subsidiaries are pledged against these loans.

## 25. Other financial liabilities

As part of the refinancing in March, Össur closed its interest rate swap agreement, which had a negative value of 5.4 million (2010: 4.6 million). The hedging relationship remains effective and the cost (1.8 million) will be expensed during the next five quarters. In April new interest rate swap agreements were signed whereas roughly 50% of the interest payments of the new term loans have fixed interest from June 2011. The market value of those swap agreements were negative by 2.3 million at end of September.

## 26. Deferred tax asset / (liability)

	30.9.2011	31.12.2010
At beginning of period.....	22,480	31,343
Income tax payable for the period.....	12,248	6,826
Calculated tax for the period.....	(10,615)	(12,340)
Arising on acquisition of a subsidiary.....	801	(1,690)
Recognised directly through equity.....	(536)	(1,380)
Deferred tax recycled from equity to income.....	0	(91)
Exchange rate differences.....	733	(188)
	<u>25,111</u>	<u>22,480</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	36,767	36,171
Deferred tax liabilities.....	(11,656)	(13,691)
	<u>25,111</u>	<u>22,480</u>

# Notes to the Condensed Consolidated Financial Statements

## 27. Provisions

	30.9.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Warranty (i).....	2,486	4,099	1,110	4,653
Other.....	1,552	126	1,472	65
	<u>4,038</u>	<u>4,225</u>	<u>2,582</u>	<u>4,718</u>

(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	Other provisions	Total
At 1 January 2010.....	4,986	3,444	8,430
Additional provision recognised.....	4,473	464	4,937
Utilization of provision.....	(3,696)	(2,210)	(5,906)
Exchange differences.....	0	(161)	(161)
At 31 December 2010.....	5,763	1,537	7,300
Additional provision recognised.....	3,487	132	3,619
Utilization of provision.....	(2,665)	5	(2,660)
Exchange differences.....	0	4	4
Balance at 30 September 2011.....	<u>6,585</u>	<u>1,678</u>	<u>8,263</u>
Non-current.....	4,099	126	4,225
Current.....	2,486	1,552	4,038
Balance at 30 September 2011.....	<u>6,585</u>	<u>1,678</u>	<u>8,263</u>

## 28. Related party transactions

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

## 29. Other liabilities

	30.9.2011	31.12.2010
Accrued expenses.....	7,546	8,004
Accrued Royalties.....	1,123	1,400
Sales tax and VAT.....	1,825	960
Payable due to previous acquisition.....	2,324	2,324
Interest rate swap contracts, current portion.....	0	3,200
Other.....	2,801	3,261
	<u>15,619</u>	<u>19,149</u>

## 30. Litigation

Breg Inc. has filed a lawsuit against Össur Americas Inc. in Texas state court. Breg alleges Össur Americas engaged in tortuous conduct when a distributor expanded its partnership with Össur Americas while discontinuing its relationship with Breg. Össur Americas believes the allegations are without merit and has filed motions seeking summary judgment. A trial date has been set in December 2011. The likely outcome remains uncertain.

# Notes to the Condensed Consolidated Financial Statements

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## 31. Events after the Balance Sheet date

At beginning of October the Company sold its asset currently classified as assets held for sale in the balance sheet for 2.5 million realizing a sale gain of 1.2 million.

## 32. Approval of the Consolidated Financial Statements

The Condensed Interim Consolidated Financial Statements were approved by the board of directors and authorised for issue on 27 October 2011.