

# Össur hf.

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Condensed Consolidated

Financial Statements

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**September 30th 2010**

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

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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 2010 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 Condensed Interim Consolidated Financial Statements are not audited nor reviewed by the Company's auditors.

The total sales of the Ossur Consolidation amounted to USD 263.9 million. The net profit amounted to USD 27.3 million and according to the Balance Sheets the total assets of the Ossur Consolidation amounted to USD 605.4 million at the end of period, liabilities were 270.8 million, and equity was 334.6 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 2010 and operating performance of the period ended 30 September 2010.

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 2010 and confirm them by means of their signatures.

Reykjavik, 25 October 2010

## Board of Directors

Niels Jacobsen  
Chairman of the Board

Arne Boye Nielsen

Kristjan T. Ragnarsson

Thordur Magnusson

Svafa Gronfeldt

## President and CEO

Jon Sigurdsson

# Financial Ratios

## Consolidated statement

		YTD 2010	YTD 2009	2009	2008	2007
<b>Income Statement</b>						
Net sales	USD '000	263,926	242,709	330,580	346,835	331,966
Gross profit	USD '000	164,088	148,807	201,815	214,203	192,033
Operating expenses <sup>2</sup>	USD '000	119,815	114,654	154,071	167,678	171,160
Profit from operations	USD '000	45,885	34,518	48,240	55,958	39,716
Net profit	USD '000	27,301	14,688	22,762	28,488	7,580
EBITDA	USD '000	56,482	49,176	66,988	79,440	64,392
<b>Balance sheet</b>						
Total assets	USD '000	605,384	616,826	628,217	603,778	635,821
Equity	USD '000	334,554	276,470	312,223	249,648	250,282
Net interest-bearing debt (NIBD)	USD '000	128,493	197,230	157,633	234,281	283,106
<b>Cash flow</b>						
Cash generated by operations	USD '000	47,697	56,465	85,770	71,460	61,528
Cash provided by operating activities	USD '000	30,842	46,320	69,155	52,835	45,701
Cash flows from investing activities	USD '000	(7,019)	(5,330)	(16,423)	(6,648)	(17,781)
Cash flows from financing activities	USD '000	(37,331)	(23,618)	(4,284)	(30,610)	(25,289)
Free Cash flow	USD '000	27,634	41,079	60,238	46,040	38,841
<b>Key figures</b>						
Sales Growth USD	%	8.7	(9.2)	(4.7)	4.5	33.5
Operating margin	%	17.4	14.2	14.6	16.0	12.0
EBITDA margin	%	21.4	20.3	20.3	22.9	19.4
Equity ratio	%	55.3	44.8	49.7	41.3	39.4
Ratio of net debt to EBITDA <sup>1</sup>		1.7	3.0	2.4	2.9	4.4
Ratio of debt to EBITDA <sup>1</sup>		2.6	3.8	3.5	3.3	4.6
Current ratio		2.3	1.9	2.3	1.1	0.9
Return on equity <sup>1</sup>	%	11.4	7.2	8.1	11.0	4.0
<b>Market</b>						
Market value of equity <sup>3</sup>	USD '000	857,212	419,303	529,151	349,263	672,024
Number of shares	Millions	454	423	454	423	423
Price/earnings ratio, (P/E) <sup>1</sup>		24.6	22.2	23.2	12.3	88.7
Diluted EPS <sup>1</sup>	US Cent	7.84	4.46	5.30	6.73	1.94
Diluted Cash EPS <sup>1</sup>	US Cent	11.10	9.22	9.66	12.29	8.24

## Notes

1. Financial ratios for YTD 2010 and YTD 2009 are based on operations for the preceding 12 months.
2. Excluding other income.
3. Market value based on closing price at 30.09.2010 on Nasdaq OMX, Iceland and Denmark.

# Consolidated Income Statements for the period 1.1.- 30.9.2010 and 1.1.- 30.9.2009

	Notes	2010 YTD	2009 YTD	2010 Q3	2009 Q3
<b>Net sales</b>	4	263,926	242,709	87,437	84,184
Cost of goods sold .....		<u>(99,838)</u>	<u>(93,902)</u>	<u>(32,991)</u>	<u>(32,463)</u>
<b>Gross profit</b>		164,088	148,807	54,446	51,721
Other income .....		1,612	365	130	18
Sales and marketing expenses .....		(71,388)	(69,116)	(22,980)	(21,948)
Research and development expenses .....		(14,583)	(13,948)	(4,743)	(4,170)
General and administrative expenses .....		<u>(33,844)</u>	<u>(31,590)</u>	<u>(11,122)</u>	<u>(10,725)</u>
<b>Profit from operations</b>		45,885	34,518	15,731	14,896
Financial income .....		280	185	130	45
Financial expenses .....		(11,733)	(11,514)	(4,020)	(4,047)
Net exchange rate difference .....		1,941	(3,463)	(6,514)	(4,196)
Net financial income / (expenses)	7	<u>(9,512)</u>	<u>(14,792)</u>	<u>(10,404)</u>	<u>(8,198)</u>
<b>Profit before tax</b>		36,373	19,726	5,327	6,698
Income tax .....	8	<u>(9,072)</u>	<u>(5,038)</u>	<u>(1,312)</u>	<u>(1,938)</u>
<b>Net profit</b>		<u>27,301</u>	<u>14,688</u>	<u>4,015</u>	<u>4,760</u>
Attributable to:					
Owners of the Company .....		26,895	14,688	3,896	4,760
Non-controlling interests .....		406	0	119	0
		<u>27,301</u>	<u>14,688</u>	<u>4,015</u>	<u>4,760</u>
<b>Earnings per Share</b>					
Basic Earnings per Share .....		<u>6.06</u>	<u>3.47</u>	<u>0.88</u>	<u>1.13</u>
Diluted Earnings per Share .....		<u>6.05</u>	<u>3.47</u>	<u>0.88</u>	<u>1.13</u>

# Consolidated Statements of Comprehensive Income for the period 1.1.- 30.9.2010 and 1.1.- 30.9.2009

	Notes	2010 YTD	2009 YTD	2010 Q3	2009 Q3
<b>Net profit</b>		27,301	14,688	4,015	4,760
<b>Other comprehensive income</b>					
Gain / (loss) on hedge of a net investment in foreign operations.....		2,644	(2,118)	(4,067)	(2,353)
Gain / (loss) on cash flow hedges .....		2,388	(422)	468	(385)
Transl. difference of shares in foreign operations.....		(9,111)	14,061	22,209	10,257
Income tax relating to components of other comprehensive income.....		(806)	331	462	70
Other comprehensive income (net of tax).....		(4,885)	11,852	19,072	7,589
<b>Total comprehensive income</b>		<u>22,416</u>	<u>26,540</u>	<u>23,087</u>	<u>12,349</u>
Attributable to:					
Owners of the Company .....		22,010	26,540	22,968	12,349
Non-controlling interests .....		406	0	119	0
		<u>22,416</u>	<u>26,540</u>	<u>23,087</u>	<u>12,349</u>

# Consolidated Balance Sheets

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## Assets

	Notes	30.09.2010	31.12.2009
<b>Non-current assets</b>			
Property, plant and equipment .....	10	29,939	32,286
Goodwill .....	11	331,494	334,844
Other intangible assets .....	12	30,524	35,382
Other financial assets .....	14	5,152	3,567
Deferred tax asset .....	22	37,732	42,367
		<u>434,841</u>	<u>448,446</u>
<b>Current assets</b>			
Inventories .....	16	44,185	43,526
Accounts receivables .....	17	49,310	43,693
Other assets .....	17	10,077	10,413
Assets classified as held for sale .....	10	1,190	2,308
Bank balances and cash .....	15	65,781	79,831
		<u>170,543</u>	<u>179,771</u>
<b>Total assets</b>		<u><u>605,384</u></u>	<u><u>628,217</u></u>

## 30 September 2010 and 2009

### Equity and liabilities

	Notes	30.09.2010	31.12.2009
<b>Equity</b>			
Issued capital .....	18	201,997	201,997
Reserves .....		1,006	5,582
Retained earnings .....		130,542	103,647
<b>Equity attributable to owners of the Company</b>		<u>333,545</u>	<u>311,226</u>
Non-controlling interest in equity .....		1,009	997
<b>Total equity</b>		<u>334,554</u>	<u>312,223</u>
<b>Non-current liabilities</b>			
Borrowings .....	20	173,517	210,282
Deferred tax liabilities .....	22	10,352	11,024
Provisions .....	23	5,465	5,744
Other financial liabilities .....	21	7,606	9,995
		<u>196,940</u>	<u>237,045</u>
<b>Current liabilities</b>			
Borrowings .....	20	20,757	27,182
Accounts payable .....		15,625	13,353
Taxes payable .....		4,078	2,452
Provisions .....	23	2,434	2,686
Other liabilities .....	25	30,996	33,276
		<u>73,890</u>	<u>78,949</u>
<b>Total equity and liabilities</b>		<u><u>605,384</u></u>	<u><u>628,217</u></u>

# Consolidated Statements of Cash Flows

## for the period 1.1.- 30.9.2010 and 1.1.- 30.9.2009

	Notes	YTD 2010	YTD 2009
<b>Cash flows from operating activities</b>			
Profit from operations .....		45,885	34,518
Depreciation and amortization .....	10, 12	10,597	14,659
Gain / loss on disposal of assets .....		(1,051)	530
Change in provisions .....		(389)	(1,171)
Changes in operating assets and liabilities .....		(7,345)	7,929
<b>Cash generated by operations</b>		<u>47,697</u>	<u>56,465</u>
Interest received .....		110	189
Interest paid .....		(15,125)	(7,303)
Taxes paid .....		(1,840)	(3,031)
<b>Net cash provided by operating activities</b>		<u>30,842</u>	<u>46,320</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets .....	10, 12	(5,854)	(5,947)
Proceeds from sale of fixed assets .....		2,646	706
Acquisition of subsidiaries .....	13	(2,219)	0
Changes in financial assets .....		(1,592)	(89)
		<u>(7,019)</u>	<u>(5,330)</u>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings .....		(132)	2,328
Repayments of long-term borrowings .....		(36,805)	(25,946)
Dividends from subsidiaries paid to non-controlling interests .....		(394)	0
		<u>(37,331)</u>	<u>(23,618)</u>
<b>Net change in cash</b> .....		(13,508)	17,372
<b>Effects of foreign exchange rate adjustments</b> .....		(542)	760
<b>Cash at beginning of period</b> .....		<u>79,831</u>	<u>30,906</u>
<b>Cash at end of period</b> .....		<u>65,781</u>	<u>49,038</u>
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## Consolidated Statements of Changes in Equity for the period ended 30 September 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		249,648
Net profit.....							14,688	14,688		14,688
Loss on hedge of a net investment in foreign operations net of tax.....						(1,842)		(1,842)		(1,842)
Loss on cash flow hedges net of tax.....					(367)			(367)		(367)
Translation difference of shares in foreign operations.....						14,061		14,061		14,061
Total comprehensive income for the period.....	0	0	0	0	(367)	12,219	14,688	26,540	0	26,540
Share option charge for the period.....				282				282		282
Balance at 30 September 2009.....	4,821	168,081	1,205	1,271	(8,420)	13,821	95,691	276,469	0	276,469
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
Gain on 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
Payment of dividends.....								0	(394)	(394)
Share option charge for the period.....				309				309		309
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

# 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, 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 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 2009.

### 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 2009.

## 3. Quarterly statements

	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Net sales .....	87,437	90,021	86,468	87,871	84,184
Cost of goods sold .....	(32,991)	(34,467)	(32,380)	(34,863)	(32,463)
<b>Gross profit</b> .....	54,446	55,554	54,088	53,008	51,721
Other income .....	130	64	1,418	131	18
Sales and marketing expenses .....	(22,980)	(23,645)	(24,763)	(23,451)	(21,948)
Research and development expenses .....	(4,743)	(4,738)	(5,102)	(5,132)	(4,170)
General and administrative expenses .....	(11,122)	(11,224)	(11,498)	(10,834)	(10,725)
<b>Profit from operations</b> .....	15,731	16,011	14,143	13,722	14,896
Net financial income /expenses .....	(3,890)	(3,802)	(3,761)	(4,004)	(4,002)
Net exchange rate difference .....	(6,514)	5,692	2,763	793	(4,196)
Total financial income/(expenses) .....	(10,404)	1,890	(998)	(3,211)	(8,198)
<b>Profit before tax</b> .....	5,327	17,901	13,145	10,511	6,698
Income tax .....	(1,312)	(4,308)	(3,452)	(2,437)	(1,938)
<b>Net profit</b> .....	4,015	13,593	9,693	8,074	4,760
EBITDA .....	19,082	19,568	17,832	17,812	19,355

In quarter two and three of last year the Company received incorrect information relating to the accrued position on its interest rate swap agreements. This was corrected before year-end 2009. However, the financial expenses in the Financial statement of 30.6.2009 and 30.9.2009 were understated. The effect on interest expense in Q2 2009 is 1.145 and in Q3 2009, 1.245. The quarterly split has been adjusted in the comparative figure in this Financial Statement. The adjustment has no effect on the total 2009 result.

# Notes to the Condensed Consolidated Financial Statements

## 4. Net sales

Specified according to geographical segments:

	YTD 2010	YTD 2009
Americas.....	136,303	118,969
EMEA.....	115,661	113,209
Asia.....	11,962	10,532
	<u>263,926</u>	<u>242,709</u>

Specified according to product lines:

Prosthetics.....	119,398	109,537
Bracing and Supports.....	130,806	119,016
Compression Therapy (Phlebology).....	12,359	12,345
Other products.....	1,363	1,811
	<u>263,926</u>	<u>242,709</u>

Specified according to currency:

US Dollar, USD.....	131,524	119,894
Euro, EUR.....	86,546	82,502
British Pound, GBP.....	13,799	14,067
Canadian dollar, CAD.....	11,943	10,521
Swedish Krona, SEK.....	9,199	7,544
Norwegian Krona, NOK.....	5,499	4,278
Australian Dollar, AUD.....	2,684	1,868
Icelandic Krona, ISK.....	967	725
Other.....	1,765	1,310
	<u>263,926</u>	<u>242,709</u>

# Notes to the Consolidated Financial Statements

## 5. Geographical segments

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

2010	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2010	YTD 2010	YTD 2010	YTD 2010	YTD 2010
<b>Revenue</b>					
External sales.....	136,303	115,661	11,962	0	263,926
Inter-segment sales.....	19,296	62,040	0	(81,336)	0
Total revenue.....	<u>155,599</u>	<u>177,701</u>	<u>11,962</u>	<u>(81,336)</u>	<u>263,926</u>

Inter-segment sales are calculated from production cost.

### Result

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>

### Other information

Capital additions.....	3,073	2,693	88	0	5,854
Depreciation and amortization.....	3,711	6,738	148	0	10,597

### Balance sheet 30.09.2010

<b>Assets</b>					
Segment assets.....	392,887	854,520	13,376	(655,400)	<u>605,384</u>
<b>Liabilities</b>					
Segment liabilities.....	263,707	472,666	13,162	(478,704)	<u>270,830</u>

# Notes to the Consolidated Financial Statements

2009	Americas	EMEA	Asia	Eliminations	Consolidated
	YTD 2009	YTD 2009	YTD 2009	YTD 2009	YTD 2009
<b>Revenue</b>					
External sales.....	118,969	113,208	10,532	0	242,709
Inter-segment sales.....	14,335	41,692	0	(56,027)	0
Total revenue.....	<u>133,304</u>	<u>154,900</u>	<u>10,532</u>	<u>(56,027)</u>	<u>242,709</u>
<b>Result</b>					
Segment result.....	<u>16,823</u>	<u>13,739</u>	<u>3,956</u>	<u>0</u>	34,518
Financial income/(expenses).....					<u>(14,792)</u>
Profit before tax.....					19,726
Income tax.....					<u>(5,038)</u>
Net profit.....					<u>14,688</u>
<b>Other information</b>					
Capital additions.....	1,316	4,497	134	0	5,947
Depreciation and amortization.....	8,007	6,509	143	0	14,659
<b>Balance sheet 31.12.2009</b>					
<b>Assets</b>					
Segment assets.....	429,724	1,034,923	8,378	(844,808)	<u>628,217</u>
<b>Liabilities</b>					
Segment liabilities.....	308,668	588,956	8,469	(590,099)	<u>315,994</u>

# Notes to the Condensed Consolidated Financial Statements

## 6. Other income

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

## 7. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	YTD 2010	YTD 2009
<b>Financial income</b>		
Interests on bank deposits.....	86	138
Income from other financial assets.....	3	11
Share in profit/loss of associated companies.....	111	0
Other financial income.....	80	36
	<u>280</u>	<u>185</u>
<b>Finance expenses</b>		
Interest on bank overdrafts and loans.....	(11,417)	(11,449)
Other financial expenses.....	(316)	(65)
	<u>(11,733)</u>	<u>(11,514)</u>
Net exchange rate differences.....	1,941	(3,463)
Net financial income / (expenses).....	<u>(9,512)</u>	<u>(14,792)</u>

## 8. Income tax

Income tax is specified as follows:

	YTD 2010	YTD 2009
Current tax expenses.....	(6,575)	(4,758)
Deferred tax expenses.....	(2,568)	(280)
Deferred tax reclassified from equity to income.....	71	0
	<u>(9,072)</u>	<u>(5,038)</u>

	YTD 2010		YTD 2009	
	Amount	%	Amount	%
Profit before taxes.....	<u>36,373</u>		<u>19,726</u>	
Income tax calculated at 18% / 15% .....	(6,459)	18%	(2,959)	15%
Effect of different tax rates of other jurisdictions.....	(3,052)	8%	(1,052)	5%
Effect of non-deductible expenses.....	(376)	1%	(370)	2%
Effect of change in tax rate.....	(14)	0%	(32)	0%
Other changes.....	829	(2%)	(625)	3%
	<u>(9,072)</u>	25%	<u>(5,038)</u>	26%

# Notes to the Condensed Consolidated Financial Statements

## 9. Additional information regarding cash flow

	YTD 2010	YTD 2009
Net profit .....	27,301	14,688
Items not affecting cash .....	8,643	19,520
Working capital provided by operating activities .....	35,944	34,208
(Increase) / decrease in inventories .....	(667)	10,439
(Increase) / decrease in receivables .....	(5,647)	(1,148)
Increase / (decrease) in payables .....	1,212	2,821
Net cash provided by operating activities .....	<u>30,842</u>	<u>46,320</u>

## 10. Property, plant and equipment

Operating fixed assets are specified as follows:

	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>Cost</b>				
At 1 January 2010.....	15,056	40,337	33,667	89,060
Reclassification.....	0	(347)	(2,429)	(2,776)
Additions.....	20	2,340	2,896	5,256
Acquired on acquisition of subsidiary.....	0	0	12	12
Exchange rate differences.....	(774)	(566)	(278)	(1,618)
Eliminated on disposal.....	0	(396)	(2,104)	(2,500)
Fully depreciated assets.....	0	(5,262)	(3,208)	(8,470)
At 30 September 2010.....	<u>14,302</u>	<u>36,106</u>	<u>28,556</u>	<u>78,964</u>
<b>Accumulated depreciation</b>				
At 1 January 2010.....	8,244	25,616	22,914	56,774
Reclassification.....	0	(388)	(1,299)	(1,687)
Charge for the period.....	283	2,558	2,528	5,369
Exchange rate differences.....	(415)	(306)	(115)	(836)
Eliminated on disposal.....	0	(140)	(1,985)	(2,125)
Fully depreciated assets.....	0	(5,262)	(3,208)	(8,470)
At 30 September 2010.....	<u>8,112</u>	<u>22,078</u>	<u>18,835</u>	<u>49,025</u>
<b>Carrying Amount:</b>				
At 30 September 2010.....	<u>6,190</u>	<u>14,028</u>	<u>9,721</u>	<u>29,939</u>
At 31 December 2009.....	<u>6,812</u>	<u>14,721</u>	<u>10,753</u>	<u>32,286</u>

# Notes to the Condensed Consolidated Financial Statements

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

	YTD 2010	YTD 2009
Cost of goods sold .....	3,002	2,453
Sales and marketing expenses .....	399	427
Research and development expenses.....	377	225
General and administrative expenses .....	1,591	2,719
	<u>5,369</u>	<u>5,824</u>

## Assets 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.

## 11. Goodwill

	30.09.2010
<b>Cost</b>	
At 1 January 2009.....	322,381
Arising on acquisition of subsidiaries.....	7,083
Exchange rate differences.....	5,380
At 31 December 2009.....	<u>334,844</u>
Arising on acquisition of subsidiaries.....	1,892
Exchange rate differences.....	(5,242)
At 30 September 2010.....	<u>331,494</u>
<b>Carrying amount</b>	
At 30 September 2010.....	<u>331,494</u>
At 31 December 2009.....	<u>334,844</u>

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

	30.09.2010	31.12.2009
Americas.....	205,482	205,312
EMEA.....	122,976	126,611
Asia.....	3,037	2,921
	<u>331,494</u>	<u>334,844</u>

# Notes to the Condensed Consolidated Financial Statements

## 12. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>Cost</b>					
At 1 January 2010.....	29,019	15,675	35,379	15,484	95,557
Reclassification.....	18,505	0	(16,771)	1,042	2,776
Additions.....	0	0	0	598	598
Fully depreciated assets.....	(2,370)	(3,450)	0	(2,014)	(7,834)
Exchange rate differences.....	(816)	(22)	(714)	(19)	(1,571)
At 30 September 2010.....	<u>44,338</u>	<u>12,203</u>	<u>17,894</u>	<u>15,091</u>	<u>89,526</u>
<b>Amortization</b>					
At 1 January 2010.....	28,308	12,246	6,877	12,744	60,175
Reclassification.....	5,355	0	(4,905)	1,237	1,687
Charge for the period.....	1,644	1,456	372	1,756	5,228
Fully depreciated assets.....	(2,370)	(3,450)	0	(2,014)	(7,834)
Exchange rate differences.....	(186)	(16)	(37)	(15)	(254)
At 30 September 2010.....	<u>32,751</u>	<u>10,236</u>	<u>2,307</u>	<u>13,708</u>	<u>59,002</u>
<b>Carrying Amount:</b>					
At 30 September 2010.....	<u>11,587</u>	<u>1,967</u>	<u>15,587</u>	<u>1,383</u>	<u>30,524</u>
At 31 December 2009.....	<u>711</u>	<u>3,429</u>	<u>28,502</u>	<u>2,740</u>	<u>35,382</u>

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:

	YTD 2010	YTD 2009
Cost of goods sold.....	15	8
Sales and marketing expenses.....	2,300	5,937
Research and development expenses.....	2,062	2,586
General and administrative expenses.....	851	304
	<u>5,228</u>	<u>8,835</u>

## 13. The Consolidation

During the period, the Company disposed of 1,5% of its interest in Team Makena, reducing its continuing interest to 61%. The proceeds on disposal were received in cash.

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

At the end of June the Company acquired 100% of Orthopaedic Partner Africa, which is a sales and distribution company in South Africa. The acquisition has an immaterial effect on the overall financial position of Össur.

# Notes to the Condensed Consolidated Financial Statements

## 14. Other financial assets

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

	30.09.2010	31.12.2009
Investment in associates.....	2,195	1,445
Loans and receivables.....	2,957	2,122
	<u>5,152</u>	<u>3,567</u>

## 15. Bank balances and cash

	30.09.2010	31.12.2009
Bank accounts.....	64,249	76,618
Bankers draft received.....	1,441	2,818
Cash and other cash equivalents.....	91	395
	<u>65,781</u>	<u>79,831</u>

## 16. Inventories

	30.09.2010	31.12.2009
Raw material.....	12,876	14,397
Work in progress.....	3,641	3,170
Finished goods .....	27,668	25,959
	<u>44,185</u>	<u>43,526</u>

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 7.7 million (2009: 6.7 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 1.8 million (2009: 1.8 million) is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

## 17. Accounts receivables and other assets

	30.09.2010	31.12.2009
Nominal value.....	54,126	47,940
Allowances for doubtful accounts.....	(4,090)	(3,521)
Allowances for sales return.....	(726)	(726)
	<u>49,310</u>	<u>43,693</u>

### Other assets

	30.09.2010	31.12.2009
VAT refundable.....	2,520	1,779
Prepaid expenses.....	4,306	5,174
Other.....	3,251	3,460
	<u>10,077</u>	<u>10,413</u>

# Notes to the Condensed Consolidated Financial Statements

## 18. Issued capital

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

	<u>Shares</u>	<u>Nominal value</u>
Total share capital at period-end.....	454	5,068

Total shares issued and outstanding at period-end is 453,732,008 (2009: 454 million). The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:

	<u>Share capital</u>	<u>Share premium</u>	<u>Issued capital</u>
Balance at 1 January 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.....	<u>5,068</u>	<u>196,929</u>	<u>201,997</u>
Balance at 30 September 2010.....	<u>5,068</u>	<u>196,929</u>	<u>201,997</u>

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

The following option contracts have been issued at period end:

	<u>Number</u>	<u>Grant date</u>	<u>Exercise date</u>	<u>Exercise price DKK</u>	<u>Fair value at grant date (Date of conversion to DKK)</u>
Issued 5 February 2007 .....	1,540,000	5.2.2007	1.12.2011	7.8	5.5
Issued 8 February 2007 .....	1,250,000	5.2.2007	1.12.2011	7.8	5.5
Issued 23 February 2008 .....	1,950,000	23.2.2008	23.2.2012	6.9	5.5
Issued 15 July 2008 .....	500,000	15.7.2008	15.7.2012	5.4	5.5
Issued 2 March 2009 .....	200,000	2.3.2009	1.3.2013	4.4	5.2
Issued 15 December 2009 .....	400,000	15.12.2009	15.12.2013	5.2	5.2
Issued 2 January 2010 .....	200,000	2.1.2010	2.1.2014	5.3	5.8
Issued 26 May 2010 .....	50,000	26.5.2010	26.5.2014	8.5	8.5
Issued 29 July 2010 .....	100,000	29.7.2010	29.7.2014	8.7	8.7
Total issued option contracts.....	<u>6,190,000</u>				

Estimated remaining cost due to the stock option contracts are 0.8 million which will be expensed over the next four years. An expense of 0.3 million is recognised in the Income Statement for the period.

# Notes to the Condensed Consolidated Financial Statements

## 20. Borrowings

Secured - at amortized cost	Current		Non - current	
	30.09.2010	31.12.2009	30.09.2010	31.12.2009
Loans in USD.....	9,952	13,641	86,315	102,721
Loans in EUR.....	10,054	13,022	83,583	104,886
Other borrowings.....	749	496	3,619	2,675
Bank overdrafts.....	2	23	0	0
	<u>20,757</u>	<u>27,182</u>	<u>173,517</u>	<u>210,282</u>

Aggregated maturities of long-term loans are as follows:

	30.09.2010	31.12.2009
In 1.10.2010 - 30.9.2011 / 2010.....	20,756	27,159
In 1.10.2011 - 30.9.2012 / 2011.....	27,846	104,006
In 1.10.2012 - 30.9.2013 / 2012.....	28,113	106,167
In 1.10.2013 - 30.9.2014 / 2013.....	28,339	0
In 1.10.2014 - 30.9.2015 / 2014.....	7,856	0
In 1.10.2015 - 30.9.2016 / 2015.....	81,254	0
	<u>194,273</u>	<u>237,441</u>

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.

## 21. Other financial liabilities

Outstanding interest rate swap contracts (cash flow hedge) at 30 September 2010 are due over the next three years. The contracts' fair value is negative 7.6 million and principal amount 129 million.

## Notes to the Condensed Consolidated Financial Statements

### 22. Deferred tax asset / (liability)

	30.09.2010	31.12.2009
At beginning of period.....	31,343	34,487
Income tax payable for the period.....	6,575	4,996
Calculated tax for the period.....	(9,072)	(7,475)
Reclassification to deferred tax asset/ (liability).....	0	(700)
Recognised due to acquisition / disposal of subsidiaries.....	0	(293)
Recognised directly through equity.....	(806)	313
Exchange rate differences.....	(660)	15
	<u>27,380</u>	<u>31,343</u>

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

	Assets	Liabilities	Net
Goodwill.....	27,150	(3,757)	23,393
Intangible assets.....	546	(5,939)	(5,393)
Operating fixed assets.....	1,034	(61)	973
Tax loss carry forward.....	2,625	0	2,625
Inventories.....	2,064	0	2,064
Provisions.....	1,149	(700)	449
Current liabilities.....	1,753	(656)	1,097
Other.....	2,599	(427)	2,172
Total tax assets / (liabilities).....	<u>38,920</u>	<u>(11,540)</u>	<u>27,380</u>
Tax asset and liabilities offsetting.....	(1,188)	1,188	0
	<u>37,732</u>	<u>(10,352)</u>	<u>27,380</u>

# Notes to the Condensed Consolidated Financial Statements

## 23. Provisions

	Current		Non-current	
	30.09.2010	31.12.2009	30.09.2010	31.12.2009
Warranty.....	506	715	5,328	4,271
Other.....	1,928	1,971	137	1,473
	<u>2,434</u>	<u>2,686</u>	<u>5,465</u>	<u>5,744</u>
	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.....	2,352	0	651	3,003
Utilization of provision.....	(1,504)	0	(1,874)	(3,378)
Exchange differences.....	0	0	(156)	(156)
At 30 September 2010.....	<u>5,834</u>	<u>0</u>	<u>2,065</u>	<u>7,899</u>
Non-current.....	5,328	0	137	5,465
Current.....	506	0	1,928	2,434
At 30 September 2010.....	<u>5,834</u>	<u>0</u>	<u>2,065</u>	<u>7,899</u>

## 24. Related party transactions

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

## 25. Other liabilities

	30.09.2010	31.12.2009
Accrued expenses.....	7,976	11,999
Accrued salaries and related expenses.....	15,867	14,760
Accrued Royalties.....	1,174	1,185
Sales tax and VAT.....	225	934
Payable due to previous acquisition.....	2,324	2,324
Other.....	3,430	2,075
	<u>30,996</u>	<u>33,276</u>

# Notes to the Condensed Consolidated Financial Statements

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## 26. 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.

## 27. Approval of the Consolidated Financial Statements

The Condensed Interim Consolidated Financial Statements were approved by the board of directors and authorised for issue on 25 October 2010.