

# Össur hf.

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Consolidated Financial Statements

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**December 31st 2011**

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

# Össur hf.

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Consolidated Financial Statements

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December 31st 2011

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## Statement by the Board of Directors and President and CEO

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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 2011. Össur Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Össur hf. designs, develops, 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 United Kingdom, 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 401.3 million, compared to USD 358.5 million in the preceding year. This represents an increase in sales of approximately 11.9%. Net profit amounted to USD 36.6 million compared to USD 35.4 million in 2010. Diluted Earnings per Share amounted to US cents 8.1 compared to US cents 7.8 in 2010. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 75.6 million compared to USD 74.4 million in the preceding year.

The total assets of the Össur Consolidation amounted to USD 582.0 million at year end, liabilities were 215.2 million, and equity was 366.8 million. The equity ratio at year end was 63%, compared to 57% the preceding year.

In the course of the year the Company employed on average 1,864 employees.

The company is listed on the NASDAQ OMX Copenhagen. The market value of the Company's share at year end was USD 676 million. During the year the share price decreased by 9%. At year end, shareholders in Össur hf. numbered 2,855 compared to 2,798 at the beginning of the year. One shareholder owned more than 10% of the shares in the Company at year end: William Demant Invest A/S, with 39.6%.

In its procedures, the Board of Directors complies with the Articles of Association of the Company, the Board of Directors' Rules of Procedure and follows the Danish Recommendations for Corporate Governance issued by the Danish Committee on Corporate Governance. 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 2012. 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

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The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2011 with their signatures.

Reykjavík, 8 February 2012

## 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 Highlights and Key Ratios

## Consolidated statement

		2011	2010	2009	2008	2007
<b>Income Statement</b>						
Net sales	USD '000	401,325	358,538	330,580	346,835	331,966
Gross profit	USD '000	249,070	222,622	201,815	214,203	192,033
Operating expenses (excl. other income)	USD '000	188,773	163,964	154,071	167,678	164,317
Profit from operations	USD '000	62,400	60,245	48,240	55,958	39,716
Net profit	USD '000	36,631	35,362	22,762	28,488	7,580
EBITDA	USD '000	75,606	74,358	66,988	79,440	64,392
<b>Sales Growth</b>						
Sales Growth USD	%	12	9	(5)	4	34
Growth brake down:						
Organic growth in LCY	%	5	6	(1)	2	3
Currency effect	%	3	(1)	(4)	2	6
Acquired/divested business	%	5	4	0	0	25
<b>Balance Sheet</b>						
Total assets	USD '000	581,991	607,078	628,217	603,778	635,821
Equity	USD '000	366,756	343,558	312,223	249,648	250,282
Net interest-bearing debt (NIBD)	USD '000	111,413	132,816	157,633	234,281	283,106
<b>Cash Flow</b>						
Cash generated by operations	USD '000	68,377	64,331	85,770	71,460	61,528
Cash provided by operating activities	USD '000	48,447	39,995	69,155	52,835	45,701
Cash flows from investing activities	USD '000	(18,585)	(18,987)	(16,423)	(6,648)	(17,781)
Cash flows from financing activities	USD '000	(64,507)	(45,594)	(4,284)	(30,610)	(25,289)
Free Cash flow	USD '000	32,493	33,389	60,238	46,040	38,841
<b>Key figures</b>						
Operating margin	%	15.5	16.8	14.6	16.0	12.0
EBITDA margin	%	18.8	20.7	20.3	22.9	19.4
Equity ratio	%	63.0	56.6	49.7	41.3	39.4
Ratio of net debt to EBITDA		1.5	1.8	2.4	2.9	4.4
Ratio of debt to EBITDA		1.7	2.5	3.5	3.3	4.6
Current ratio		1.8	1.9	2.3	1.1	0.9
Return on equity	%	10.0	10.2	8.1	11.0	4.0
Employees	Number	1,864	1,627	1,532	1587	1617
<b>Market</b>						
Market value of equity	USD '000	675,533	777,593	529,151	349,263	672,024
Number of shares	Millions	454	454	454	423	423
Price/earnings ratio, (P/E)		19.2	22.3	23.2	12.3	88.7
Diluted EPS	US Cent	8.11	7.77	5.30	6.73	1.94
Diluted Cash EPS	US Cent	11.03	10.87	9.66	12.29	8.24

# Independent Auditor's Report

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**To the Board of Directors and shareholders of Össur hf.**

We have audited the accompanying Consolidated Financial Statements of Össur hf., which comprise the Statement of Board of Directors, President and CEO, the balance sheet at December 31, 2011 and the income statement, statement of comprehensive income, 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.

## **Board of Directors and management Responsibility for the Consolidated Financial Statements**

Board of directors and management are 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 Danish 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 December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies.

Kópavogur, 8 February 2012

**Deloitte ehf.**

Sigurður Páll Hauksson  
State Authorized Public Accountant

Signý Magnúsdóttir  
State Authorized Public Accountant

## Consolidated Income Statements for the years 2011 and 2010

	Notes	2011	2010	Unaudited	
				Q4 2011	Q4 2010
Net sales .....	5	401,325	358,538	97,991	94,612
Cost of goods sold .....		<u>(152,255)</u>	<u>(135,916)</u>	<u>(37,473)</u>	<u>(36,078)</u>
<b>Gross profit</b>		249,070	222,622	60,518	58,534
Other income .....	7	2,103	1,587	1,203	(25)
Sales and marketing expenses .....		(119,313)	(105,635)	(30,375)	(27,999)
Research and development expenses .....		(19,654)	(19,731)	(5,157)	(5,148)
General and administrative expenses .....		<u>(49,806)</u>	<u>(38,598)</u>	<u>(13,442)</u>	<u>(11,002)</u>
<b>Profit from operations</b>		62,400	60,245	12,747	14,360
Financial income .....		224	320	50	40
Financial expenses .....		(10,741)	(15,959)	(2,166)	(4,226)
Net exchange rate difference .....		<u>(2,052)</u>	<u>3,096</u>	<u>(391)</u>	<u>1,155</u>
Net financial income / (expenses)	10	<u>(12,569)</u>	<u>(12,543)</u>	<u>(2,507)</u>	<u>(3,031)</u>
<b>Profit before tax</b>		49,831	47,702	10,240	11,329
Income tax .....	11	<u>(13,200)</u>	<u>(12,340)</u>	<u>(2,585)</u>	<u>(3,268)</u>
<b>Net profit</b>		<u>36,631</u>	<u>35,362</u>	<u>7,655</u>	<u>8,061</u>
		Attributable to:			
Owners of the Company .....		35,266	34,866	7,296	7,971
Non-controlling interests .....		<u>1,365</u>	<u>496</u>	<u>359</u>	<u>90</u>
		<u>36,631</u>	<u>35,362</u>	<u>7,655</u>	<u>8,061</u>
<b>Earnings per Share</b>					
Basic Earnings per Share .....		<u>8.12</u>	<u>7.79</u>	<u>1.71</u>	<u>1.78</u>
Diluted Earnings per Share .....		<u>8.11</u>	<u>7.77</u>	<u>1.70</u>	<u>1.77</u>

# Consolidated Statements of Comprehensive Income for the years 2011 and 2010

	Notes	2011	2010	Unaudited	
				Q4 2011	Q4 2010
<b>Net profit</b>		36,631	35,362	7,655	8,061
<b>Other comprehensive income</b>					
Gain / (loss) on hedge of a net investment in foreign operations.....		(1,175)	3,510	0	866
Change on cash flow hedges .....		1,100	5,436	496	3,048
Transl. difference of shares in foreign operations.....		(4,639)	(12,166)	(16,760)	(3,055)
Income tax relating to components of other comprehensive income.....		(56)	(1,471)	480	(665)
Other comprehensive income (net of tax).....		(4,770)	(4,691)	(15,784)	194
<b>Total comprehensive income</b>		<u>31,861</u>	<u>30,671</u>	<u>(8,129)</u>	<u>8,255</u>
	Attributable to:				
Owners of the Company .....		30,496	30,175	1,906	8,165
Non-controlling interests .....		1,365	496	611	90
		<u>31,861</u>	<u>30,671</u>	<u>2,517</u>	<u>8,255</u>



# Consolidated Balance Sheets

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## Assets

	Notes	31.12.2011	31.12.2010
<b>Non-current assets</b>			
Property, plant and equipment .....	14	36,239	32,089
Goodwill .....	15	333,484	339,153
Other intangible assets .....	16	29,921	29,975
Other financial assets .....	18	6,809	4,160
Deferred tax assets .....	30	30,974	36,171
		<u>437,427</u>	<u>441,548</u>
<b>Current assets</b>			
Inventories .....	21	52,171	46,261
Accounts receivables .....	22	55,549	52,322
Other assets .....	23	17,188	11,349
Assets classified as held for sale .....	19	0	1,199
Bank balances and cash .....	20	19,656	54,399
		<u>144,564</u>	<u>165,530</u>
<b>Total assets</b>		<u><u>581,991</u></u>	<u><u>607,078</u></u>

# 31 December 2011 and 2010

## Equity and liabilities

	Notes	31.12.2011	31.12.2010
<b>Equity</b>			
Issued capital .....	24	193,791	201,997
Reserves .....	25	(3,841)	1,420
Retained earnings .....	26	174,576	138,513
Equity attributable to owners of the Company		<u>364,526</u>	<u>341,930</u>
Non-controlling interest in equity .....		2,230	1,628
<b>Total equity</b>		<u>366,756</u>	<u>343,558</u>
<b>Non-current liabilities</b>			
Borrowings .....	28	110,113	158,378
Deferred tax liabilities .....	30	16,010	13,691
Provisions .....	31	4,493	4,718
Other financial liabilities .....	29	2,216	1,358
		<u>132,832</u>	<u>178,145</u>
<b>Current liabilities</b>			
Borrowings .....	28	20,956	28,837
Accounts payable .....		20,305	15,462
Taxes payable .....		3,915	3,339
Provisions .....	31	3,634	2,582
Accrued salaries and related expenses .....		18,192	16,006
Other liabilities .....	33	15,401	19,149
		<u>82,403</u>	<u>85,375</u>
<b>Total equity and liabilities</b>		<u>581,991</u>	<u>607,078</u>

# Consolidated Statements of Cash Flows for the years 2011 and 2010

	Notes	2011	2010	Unaudited	
				Q4 2011	Q4 2010
<b>Cash flows from operating activities</b>					
Profit from operations .....		62,400	60,245	12,747	14,360
Depreciation and amortization .....	14, 16	13,206	14,113	3,606	3,516
(Gain) / loss on disposal of assets .....		(1,355)	(982)	(1,259)	69
Change in provisions .....		862	(973)	(93)	(584)
Changes in operating assets and liabilities .....		(6,736)	(8,072)	5,231	(727)
<b>Cash generated by operations</b>		<u>68,377</u>	<u>64,331</u>	<u>20,232</u>	<u>16,634</u>
Interest received .....		176	240	33	130
Interest paid .....	10	(12,442)	(18,025)	(1,498)	(2,900)
Taxes paid .....		(7,664)	(6,551)	(2,840)	(4,711)
<b>Net cash provided by operating activities</b>		<u>48,447</u>	<u>39,995</u>	<u>15,927</u>	<u>9,153</u>
<b>Cash flows from investing activities</b>					
Purchase of fixed and intangible assets .....	14, 16	(16,143)	(9,309)	(3,992)	(3,455)
Proceeds from sale of fixed assets .....		189	2,703	0	57
Acquisition of subsidiaries .....		0	(10,239)	0	(8,020)
Changes in financial assets .....		(2,631)	(2,142)	(1,137)	(550)
		<u>(18,585)</u>	<u>(18,987)</u>	<u>(5,129)</u>	<u>(11,968)</u>
<b>Cash flows from financing activities</b>					
Proceeds from long-term borrowings .....		116,147	(1,304)	(42,272)	(1,172)
Repayments of long-term borrowings .....		(195,427)	(43,711)	10,702	(6,906)
Changes in revolving credit facility .....		23,742	0	1,318	0
Dividends from subsidiaries paid to non-controlling interests .....		(763)	(579)	(219)	(185)
Purchased treasury shares .....		(8,206)	0	0	0
		<u>(64,507)</u>	<u>(45,594)</u>	<u>(30,471)</u>	<u>(8,263)</u>
<b>Net change in cash</b> .....		<u>(34,645)</u>	<u>(24,586)</u>	<u>4,069</u>	<u>(11,078)</u>
Effects of exchange rate changes on:					
balance of cash held in foreign currencies .....		522	655	260	264
other items held in foreign currencies .....		(620)	(1,501)	(1,301)	(1,223)
<b>Cash at beginning of period</b> .....		<u>54,399</u>	<u>79,831</u>	<u>16,106</u>	<u>65,781</u>
<b>Cash at end of period</b> .....		<u>19,656</u>	<u>54,399</u>	<u>19,134</u>	<u>53,744</u>
Additional information regarding cash flow .....	13				

## Consolidated Statements of Changes in Equity for the period ended 31 December 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.....							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 in 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)
Share 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
Net profit.....							35,266	35,266	1,365	36,631
Loss on hedge of a net investment in foreign operations net of tax.....						(1,175)		(1,175)		(1,175)
Change in cash flow hedges.....					1,044			1,044		1,044
Translation difference of shares in foreign operations.....						(4,639)		(4,639)		(4,639)
Total comprehensive income for the period.....	0	0	0	0	1,044	(5,814)	35,266	30,496	1,365	31,861
Payment of dividends.....								0	(763)	(763)
Share option charge for the period.....				517				517		517
Share option reserve release.....				(797)			797	0		0
Share option vested during the period.....				(211)				(211)		(211)
Purchased treasury shares.....	(44)	(8,162)						(8,206)		(8,206)
Balance at 31 December 2011.....	5,024	188,767	1,267	1,453	(2,979)	(3,582)	174,576	364,526	2,230	366,756

# Notes to the Consolidated Financial Statements

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## 1. General information

Össur hf. (the Company) is a global orthopaedics company, specializing in the design, development, manufacturing and sales of prosthetics, bracing and supports and compression therapy products. The principal market areas of the Company are the Americas, Europe, Middle East and Africa (EMEA) and Asia, which are served by subsidiaries in the United States, Canada, Sweden, Norway, the Netherlands, United Kingdom, 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. Adoption of new and revised Standards

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

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2011. Management believes that those new and revised IFRS standards do not have material effect on amounts reported in the Consolidated Financial Statements.

### 2.2 Standards not yet effective

The Company has not early adopted new and revised IFRSs that have been issued 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 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 2010.

# Notes to the Consolidated Financial Statements

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## 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. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. 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 acquiree. 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 acquiree 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, contingent liabilities, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) 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 below), 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.

# Notes to the Consolidated Financial Statements

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The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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.

# Notes to the Consolidated Financial Statements

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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 (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

### Interest revenue and dividend

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. 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 month, 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 (attributed to non-controlling interests as appropriate).

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. These exchange differences 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.



# Notes to the Consolidated Financial Statements

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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.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Company losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3.10 Borrowing costs

All 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 Consolidated 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 2011 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.

# Notes to the Consolidated Financial Statements

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Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 are purchased.

## **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 Consolidated 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.

# Notes to the Consolidated Financial Statements

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## **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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

# Notes to the Consolidated Financial Statements

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## 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 on going 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.

# Notes to the Consolidated Financial Statements

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Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (FVTPL) 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 an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## **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.

# Notes to the Consolidated Financial Statements

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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 34.

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.

# Notes to the Consolidated Financial Statements

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## **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 on going 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.

# Notes to the Consolidated Financial Statements

The estimates and underlying assumptions are reviewed on an on going 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. Details of impairment calculations are set out in note 15.

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:

	2011	2010	Unaudited	
			Q4 2011	Q4 2010
Americas.....	209,729	185,642	50,397	49,339
EMEA.....	173,341	156,377	42,804	40,716
Asia.....	18,255	16,519	4,790	4,557
	<u>401,325</u>	<u>358,538</u>	<u>97,991</u>	<u>94,612</u>

Specified according to product lines:

Bracing and Supports.....	211,142	179,410	52,039	48,604
Prosthetics.....	170,425	159,849	40,216	40,451
Compression Therapy (Phlebology).....	18,652	17,543	5,288	5,184
Other products.....	1,106	1,736	448	373
	<u>401,325</u>	<u>358,538</u>	<u>97,991</u>	<u>94,612</u>

Specified according to currency:

US Dollar, USD.....	208,238	187,256	50,922	55,732
Euro, EUR.....	122,695	109,996	30,278	23,450
British Pound, GBP.....	18,699	18,120	4,393	4,321
Canadian Dollar, CAD.....	17,411	16,239	4,086	4,296
Swedish Krona, SEK.....	9,818	11,586	2,329	2,387
Norwegian Krona, NOK.....	8,717	6,941	2,114	1,442
Australian Dollar, AUD.....	4,556	3,557	1,067	873
Icelandic Krona, ISK.....	1,370	1,356	540	389
Other.....	9,821	3,487	2,262	1,722
	<u>401,325</u>	<u>358,538</u>	<u>97,991</u>	<u>94,612</u>



# Notes to the Consolidated Financial Statements

## 6. Segment information

2011	Americas	EMEA	Asia	Eliminations	Consolidated
	2011	2011	2011	2011	2011
<b>Sales</b>					
External sales.....	209,729	173,341	18,255	0	401,325
Inter-segment sales.....	40,671	112,656	(0)	(153,327)	0
Total sales.....	<u>250,400</u>	<u>285,997</u>	<u>18,255</u>	<u>(153,327)</u>	<u>401,325</u>

Inter-segment sales are calculated from production cost and periodically adjusted.

### Result

Segment result.....	<u>45,383</u>	<u>10,513</u>	<u>6,504</u>	<u>0</u>	62,400
Financial income/(expenses).....					<u>(12,569)</u>
Profit before tax.....					49,831
Income tax.....					<u>(13,200)</u>
Net profit.....					<u>36,631</u>

### Balance sheet 31.12.2011

#### Assets

Segment assets.....	524,052	557,130	11,185	(510,377)	<u>581,991</u>
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#### Liabilities

Segment liabilities.....	314,675	213,631	5,113	(318,184)	<u>215,235</u>
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### Other information 2011

Capital additions.....	5,326	10,677	140	0	16,143
Depreciation and amortization.....	3,890	9,031	285	0	13,206

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.

Sales of approximately 24.0 million USD (2010: 23.5 million USD) arose from sales to the Company's largest customer.

# Notes to the Consolidated Financial Statements

2010	<u>Americas</u> 2010	<u>EMEA</u> 2010	<u>Asia</u> 2010	<u>Eliminations</u> 2010	<u>Consolidated</u> 2010
<b>Sales</b>					
External sales.....	185,642	156,377	16,519	0	358,538
Inter-segment sales.....	30,062	82,577	0	(112,639)	0
Total sales.....	<u>215,704</u>	<u>238,954</u>	<u>16,519</u>	<u>(112,639)</u>	<u>358,538</u>
<b>Result</b>					
Segment result.....	<u>36,808</u>	<u>18,021</u>	<u>5,416</u>	<u>0</u>	60,245
Financial income/(expenses).....					<u>(12,543)</u>
Profit before tax.....					47,702
Income tax.....					<u>(12,340)</u>
Net profit.....					<u>35,362</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 2010</b>					
Capital additions.....	4,715	4,164	430	0	9,309
Depreciation and amortization.....	4,943	8,962	208	0	14,113

# Notes to the Consolidated Financial Statements

## 7. Other income

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

	2011	2010
Salaries .....	114,374	95,293
Salary-related expenses .....	28,156	23,791
	<u>142,530</u>	<u>119,084</u>

Included in salary-related expense are pension related expenses amounting to 5.1 million (2010: 4.6 million).

Average number of positions .....	1,864	1,627
-----------------------------------	-------	-------

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

	2011	2010
Cost of goods sold .....	40,356	37,039
Sales and marketing .....	66,283	53,584
Research and development.....	10,138	8,923
General and administrative.....	25,753	19,538
	<u>142,530</u>	<u>119,084</u>

### Management salaries and benefits

	Salaries and related exp.	Stock options	Shares owned
<b>Board of Directors:</b>			
Niels Jacobsen - Chairman of the Board (i).....	88	0	179,791,616
Þórður Magnússon - Vice Chairman.....	53	0	1,456
Arne Boye Nielsen.....	35	0	0
Kristján Tómas Ragnarsson.....	35	0	619,539
Svafa Grönfeldt.....	35	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 193,405 shares.

### Executive Management:

Jón Sigurðsson President and CEO.....	1,445	0	265,258
Hjörleifur Pálsson CFO.....	681	0	0
Egill Jónsson VP of M&O.....	465	0	822,749
Hilmar Bragi Janusson VP of R&D.....	484	0	0
Mahesh Mansukhani President of S&M America.....	537	500,000	0
Ólafur Gylfason Man. Director S&M EMEA.....	633	0	0

# Notes to the Consolidated Financial Statements

## 9. Fees to Auditors

	2011	2010
Audit of Financial Statements.....	832	646
Review of Interim Financial Statements.....	178	124
Other services.....	395	114
	<u>1,405</u>	<u>885</u>

## 10. Financial income / (expenses)

Financial income and (expenses) are specified as follows:

	2011	2010	Unaudited	
			Q4 2011	Q4 2010
<b>Financial income</b>				
Interests on bank deposits.....	78	194	31	108
Other financial income.....	146	126	19	(68)
	<u>224</u>	<u>320</u>	<u>50</u>	<u>40</u>
<b>Financial expenses</b>				
Interest on loans.....	(10,172)	(15,431)	(2,032)	(4,014)
Other financial expenses.....	(569)	(528)	(134)	(212)
	<u>(10,741)</u>	<u>(15,959)</u>	<u>(2,166)</u>	<u>(4,226)</u>
Net exchange rate differences.....	(2,052)	3,096	(391)	1,155
Net financial income / (expenses).....	<u>(12,569)</u>	<u>(12,543)</u>	<u>(2,507)</u>	<u>(3,031)</u>

## 11. Income tax

Income tax is specified as follows:

	2011	2010	Unaudited	
			Q4 2011	Q4 2010
Current tax expenses.....	(6,525)	(6,826)	5,723	(251)
Deferred tax expenses.....	(6,675)	(5,605)	(8,308)	(3,037)
Deferred tax reclassified from equity to income.....	0	91	0	20
	<u>(13,200)</u>	<u>(12,340)</u>	<u>(2,585)</u>	<u>(3,268)</u>

	2011		2010	
	Amount	%	Amount	%
Profit before taxes.....	<u>49,831</u>		<u>47,702</u>	
Income tax calculated at 20% / 18% .....	(9,966)	20%	(8,568)	18%
Effect of different tax rates of other jurisdictions.....	(1,684)	3%	(3,598)	8%
Effect of non-deductible expenses / non taxable income.....	(1,204)	2%	(1,669)	3%
Other changes.....	(346)	1%	1,495	(3%)
	<u>(13,200)</u>	<u>26%</u>	<u>(12,340)</u>	<u>26%</u>

# Notes to the Consolidated Financial Statements

Deferred tax:

	2011	2010
Origination and reversal of temporary differences.....	6,246	2,943
Write-downs (reversals of previous write-downs) of deferred tax assets.....	421	0
Losses (recognised) and utilised.....	0	2,846
Effect of changes in tax rate.....	8	(184)
	<u>6,675</u>	<u>5,605</u>

Deferred tax balances:

<b>2010</b>	1.1.2010	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.....	<u>31,343</u>	<u>(5,605)</u>	<u>(1,380)</u>	<u>(1,690)</u>	<u>(188)</u>	<u>0</u>	<u>22,480</u>

<b>2011</b>	1.1.2011	Recognised in Income statement	Recognised directly in equity	Acquisitions / disposals	Exc. rate difference	Reclassified	31.12.2011
Goodwill.....	18,941	(3,931)			28		15,038
Intangible assets.....	(4,796)	211		(582)	171		(4,996)
Operating fixed assets.....	231	(891)		(124)	(3)		(787)
Tax loss carry forward.....	730	121			8		859
Inventories.....	2,792	(991)		(174)	(3)		1,624
Provisions.....	1,341	(1,577)			1		(235)
Current liabilities.....	3,157	(825)			1		2,333
Receivables.....	(954)	13			0		(941)
Other.....	1,038	1,195	(56)		(108)		2,069
Total.....	<u>22,480</u>	<u>(6,675)</u>	<u>(56)</u>	<u>(880)</u>	<u>95</u>	<u>0</u>	<u>14,964</u>

# Notes to the Consolidated Financial Statements

## 12. Earnings per share

	2011	2010	Unaudited	
			Q4 2011	Q4 2010
Net profit.....	36,631	35,362	7,655	8,061
Total weighted average number of ordinary shares (in thousands).....	450,877	453,732	448,732	453,732
Total average number of shares including potential shares from options (in thousands).....	451,678	455,019	449,395	454,133
Basic Earnings per Share (US cent) .....	8.12	7.79	1.71	1.78
Diluted Earnings per Share (US cent) .....	8.11	7.77	1.70	1.77
Cash Earnings per Share .....	11.05	10.90	2.51	2.55
Diluted Cash Earnings per Share .....	11.03	10.87	2.51	2.54

## 13. Additional information regarding cash flow

	2011	2010	Unaudited	
			Q4 2011	Q4 2010
Net profit .....	36,631	35,362	7,655	8,061
Items not affecting cash .....	22,131	13,173	12,252	4,530
Working capital provided by operating activities .....	58,762	48,535	19,907	12,591
(Increase) / decrease in inventories .....	(6,401)	(1,931)	(3,115)	(1,264)
(Increase) / decrease in receivables .....	(9,819)	(4,905)	(1,786)	742
Increase / (decrease) in payables .....	5,905	(1,704)	921	(2,916)
Net cash provided by operating activities .....	48,447	39,995	15,927	9,153

# Notes to the Consolidated Financial Statements

## 14. Property, plant and equipment

	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>2010</b>				
<b>Cost</b>				
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
<b>Depreciation</b>				
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
	Buildings & sites	Machinery & equipment	Fixtures & office equip.	Total
<b>2011</b>				
<b>Cost</b>				
At 1 January 2011.....	14,107	34,680	20,801	69,588
Additions.....	218	6,293	6,593	13,104
Additions relating to previous acquisitions.....	0	340	0	340
Exchange rate differences.....	(460)	(531)	(449)	(1,440)
Eliminated on disposal.....	0	(479)	(572)	(1,051)
Fully depreciated assets.....	0	(1,345)	(905)	(2,250)
At 31 December 2011.....	13,865	38,957	25,469	78,291
<b>Depreciation</b>				
At 1 January 2011.....	8,098	18,631	10,770	37,499
Charge for the period.....	414	4,812	3,288	8,514
Exchange rate differences.....	(286)	(307)	(197)	(790)
Eliminated on disposal.....	0	(337)	(584)	(921)
Fully depreciated assets.....	0	(1,345)	(905)	(2,250)
At 31 December 2011.....	8,226	21,453	12,373	42,052
Carrying amount at 31 December 2011.....	5,639	17,504	13,096	36,239

# Notes to the Consolidated Financial Statements

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

	2011	2010
Cost of goods sold .....	4,411	4,055
Sales and marketing expenses .....	621	736
Research and development expenses.....	584	496
General and administrative expenses .....	2,898	2,120
	<u>8,514</u>	<u>7,407</u>

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

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

## Assets pledged as security

The Company's assets are not pledged. Any major divestments are subject to bank approval.

## 15. Goodwill

### Cost

At 1 January 2010.....	334,844
Reclass due to previous acquisitions (purchase price allocation, PPA).....	(1,905)
Arising on acquisition of subsidiaries.....	15,332
Exchange rate differences.....	<u>(9,118)</u>
At 31 December 2010.....	339,153
Reclass due to previous acquisitions (purchase price allocation).....	(1,939)
Exchange rate differences.....	<u>(3,730)</u>
At 31 December 2011.....	<u>333,484</u>

### Carrying amount

At 31 December 2011.....	<u>333,484</u>
At 31 December 2010.....	<u>339,153</u>

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

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

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

	Wacc %	31.12.2011	31.12.2010
Americas Core.....	7.2 / 7.6	198,720	199,045
Americas Billing.....	7.0 / 7.6	14,325	16,264
EMEA.....	7.8 / 8.2	117,323	120,726
Asia.....	7.8 / 8.1	3,115	3,118
		<u>333,484</u>	<u>339,153</u>



# Notes to the Consolidated Financial Statements

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 2012 approved by management and the board of directors. The discount rate of 7.1 - 7.8% (2010: 8.8 - 10.0%) per annum was used.

Cash flow projections in the budget are based on the same expected gross margins and raw materials prices throughout the period. 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 7.3 million (2010: 7.5 million).

## 16. Other intangible assets

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>2010</b>					
<b>Cost</b>					
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
<b>Amortization</b>					
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

# Notes to the Consolidated Financial Statements

	Cust./distrib. relationships	Patents	Trademarks	Software and other	Total
<b>2011</b>					
<b>Cost</b>					
At 1 January 2011.....	22,299	12,071	15,598	10,653	60,621
Additions.....	0	262	0	2,777	3,039
Reclass from Goodwill.....	1,595	0	407	0	2,002
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	(491)	(41)	(567)	363	(736)
At 31 December 2011.....	23,403	10,892	15,438	13,739	63,472
<b>Amortization</b>					
At 1 January 2011.....	10,247	10,247	583	9,569	30,646
Charge for the period.....	2,502	1,359	35	796	4,692
Fully depreciated assets.....	0	(1,400)	0	(54)	(1,454)
Exchange rate differences.....	(355)	(34)	(25)	81	(333)
At 31 December 2011.....	12,394	10,172	593	10,392	33,551
Carrying amount at 31 December 2011.....	11,009	720	14,845	3,347	29,921

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

	2011	2010
Cost of goods sold.....	25	20
Sales and marketing expenses.....	2,719	3,049
Research and development expenses.....	1,409	2,469
General and administrative expenses.....	539	1,168
	4,692	6,706

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 7.3 million (2010: 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.

# Notes to the Consolidated Financial Statements

## 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
<b>Americas</b>			
Össur Americas, Inc.....	USA	100%	Manufacturer, sales, distribution and services
Össur Canada, Inc.....	Canada	100%	Manufacturer, sales, distribution and services
Össur Mexico S. de R.L. de C.V.....	Mexico	100%	Manufacturer
<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 Company established Össur Americas LP and Össur Finance AG during the year. The Consolidation is financed through these two companies.

## 18. Other financial assets

	31.12.2011	31.12.2010
Investment in associates.....	2,986	20
Restricted cash.....	1,273	1,156
Loans and receivables.....	2,550	2,984
	<u>6,809</u>	<u>4,160</u>

### Investments in associates

The Company has invested 30-50% of shares in associated companies located in France and USA. The principal activities of those companies are manufacturing and distribution.

	2011	2010
At 1 January.....	20	20
Additions due to acquisition.....	2,830	0
Share in net profit.....	61	0
Exchange differences.....	75	0
	<u>2,986</u>	<u>20</u>

# Notes to the Consolidated Financial Statements

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## 19. Assets classified as held for sale

At end of 2009 the Company classified its office facilities in Aliso Viejo, California as held for sale. In October the building was sold for 2.4 million with a sale gain of 1.2 million. The selling price was paid in January 2012, at year end the receivable is among other assets in the Balance Sheet.

## 20. Bank balances and cash

	<u>31.12.2011</u>	<u>31.12.2010</u>
Bank accounts.....	16,817	51,048
Bankers draft received.....	2,778	3,277
Cash and other cash equivalents.....	61	74
	<u>19,656</u>	<u>54,399</u>

## 21. Inventories

	<u>31.12.2011</u>	<u>31.12.2010</u>
Raw material.....	12,840	12,984
Work in progress.....	2,762	3,568
Finished goods .....	36,569	29,709
	<u>52,171</u>	<u>46,261</u>

Inventories of 1.7 million (2010: 2.3 million) are expected to be sold or used in production after more than twelve months.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to 10.1 million (2010: 8.6 million) were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of 3.2 million (2010: 2.3 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 2.5 million (2010: 4.4 million) in respect of write-downs of inventory to net realisable value. Reserve for obsolete inventories at year end is 4.6 million compared to 5.1 million in 2010.

# Notes to the Consolidated Financial Statements

## 22. Accounts receivables

	31.12.2011	31.12.2010
Nominal value.....	58,049	54,790
Allowances for doubtful accounts.....	(1,419)	(1,619)
Allowances for sales return.....	(1,081)	(849)
	<u>55,549</u>	<u>52,322</u>

The average credit period on sales of goods is 43 days (2010: 44 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

	31.12.2011	31.12.2010
Less than three months.....	53,704	48,897
Three to six months.....	2,222	4,116
Six to nine months.....	202	665
Older than nine months.....	1,921	1,113
	<u>58,049</u>	<u>54,790</u>

### Movement in the allowance for doubtful accounts

	2011	2010
At 1 January.....	(1,619)	(2,179)
Impairment (losses)/gains recognised on receivables.....	(52)	168
Arising on acquisition.....	0	(10)
Amounts written off as uncollectible.....	237	336
Exchange rate difference.....	15	66
At 31 December.....	<u>(1,419)</u>	<u>(1,619)</u>

In determining the recoverability of an accounts receivable, the Company considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the allowance for doubtful debts. Within trade receivables are 2.5 million with more than 30 days past due of which 1.1 million is considered recoverable.

## 23. Other assets

	31.12.2011	31.12.2010
VAT refundable.....	2,349	2,160
Prepaid expenses.....	4,285	5,704
Taxes receivable.....	4,490	0
Receivable from sale of fixed assets.....	2,412	0
Other.....	3,652	3,485
	<u>17,188</u>	<u>11,349</u>

# Notes to the Consolidated Financial Statements

## 24. Issued capital

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

	Shares	Nominal value
Total share capital at 31 December 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. 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 31 December 2011.....	<u>5,024</u>	<u>188,767</u>	<u>193,791</u>

## 25. 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.....			1,044		1,044
Share option vested during the period.....		(211)			(211)
Share option charge for the period.....		517			517
Share option reserve release.....		(797)			(797)
Change in hedge of a net investment.....				(1,175)	(1,175)
Transl. diff. of foreign operations.....				(4,639)	(4,639)
Balance at 31 December 2011.....	<u>1,267</u>	<u>1,453</u>	<u>(2,979)</u>	<u>(3,582)</u>	<u>(3,841)</u>

## 26. Retained earnings

	Retained earnings
At 1 January 2010.....	103,647
Net profit.....	34,866
At 1 January 2011.....	138,513
Share option reserve release.....	797
Net profit.....	35,266
Balance at 31 December 2011.....	<u>174,576</u>

# Notes to the Consolidated Financial Statements

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

### 27.1 Employee share option plan

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 balance sheet date:

	Number of shares	Grant/Issue date	Exercise date	Exercise price (in DKK)	Fair value at grant date (in DKK)
Issued to Management team .....	1,800,000	23-02-08	23-02-12	6.9	5.5
Issued to Executive Management .....	500,000	15-07-08	15-07-12	5.4	5.5
Issued to Management team .....	200,000	02-03-09	02-03-13	4.4	5.2
Issued to Management team .....	300,000	15-12-09	15-12-13	5.3	5.3
Issued to Management team .....	100,000	02-01-10	02-01-14	5.7	5.7
Issued to Management team .....	100,000	22-10-10	22-10-14	10.7	10.7
Issued to Management team .....	100,000	21-02-11	21-02-14	9.5	9.0
Issued to Management team .....	100,000	22-03-11	22-03-14	8.7	8.6
Issued to Management team .....	100,000	15-10-11	15-10-15	7.9	7.6
Total issued option contracts.....	<u>3,300,000</u>				

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

### 27.2 Movements in shares options during the period

The following reconciles the share options outstanding at the beginning and end of the year.

	2011		2010	
	Number of shares	Weighted average contract rate (in DKK)	Number of shares	Weighted average contract rate (in DKK)
Outstanding at beginning of period .....	6,290,000	7.1	5,740,000	7.0
Granted during period .....	300,000	8.7	650,000	8.2
Forfeited during period .....	(500,000)	7.5	(100,000)	6.9
Exercised during period.....	<u>(2,790,000)</u>	<u>7.8</u>	<u>0</u>	<u>0.0</u>
Outstanding at end of period.....	<u>3,300,000</u>	<u>6.6</u>	<u>6,290,000</u>	<u>7.1</u>

# Notes to the Consolidated Financial Statements

## 27.3 Share options exercised during the year

The following share options were exercised during the year

	Number exercised	Exercise date	Share price at exercise date (in DKK)
Issued to President and CEO .....	1,250,000	08-12-11	8.2
Issued to Executive Management .....	1,540,000	08-12-11	8.2
Total exercised during the year .....	2,790,000		

Share options issued to President and CEO and Executive Management on 5 February 2007 vested on 1 December 2011. The share options could not be exercised due to restrictions in the Icelandic Foreign Exchange Act. The Board decided to settle the contracts with the respective parties by cash payment equalling the difference of exercise price and market price. The total payment amounted to USD 0.2 million.

## 27.4 Costs due to share options

Estimated remaining cost due to the share option contracts are 0.4 million (2010: 0.7 million). An expense of 0.5 million (2010: 0.5 million) is recognised in the Income Statement for the period.

## 28. Borrowings

	31.12.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Loans in USD.....	12,670	57,548	13,797	83,085
Loans in EUR.....	6,458	27,832	13,218	71,219
Revolver in USD.....	0	16,500	0	0
Revolver in EUR.....	0	6,472	0	0
Other borrowings.....	1,828	1,761	1,822	4,074
	20,956	110,113	28,837	158,378

The maturity of the revolving credit facility is March 2016. The Company has classified the revolver as non current liability as the intention is to use it for further growth of the Company.

Aggregated maturities of borrowings are as follows:

	31.12.2011	31.12.2010
In 2012 / 2011.....	20,956	28,837
In 2013 / 2012.....	19,913	28,656
In 2014 / 2013.....	20,425	27,835
In 2015 / 2014.....	42,655	20,545
In 2016 / 2015.....	27,120	81,342
	131,069	187,215

In March Össur signed an agreement with three international banks, ING, 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's major subsidiaries are pledged against these loans.



# Notes to the Consolidated Financial Statements

## 29. 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 remaining cost (1.2 million) will be expensed during the next four 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 2.2 million at end of December.

## 30. Deferred tax asset / (liability)

	31.12.2011	31.12.2010
At beginning of period.....	22,480	31,343
Income tax payable for the period.....	6,525	6,826
Calculated tax for the period.....	(13,200)	(12,340)
Arising on acquisition of a subsidiary.....	(880)	(1,690)
Recognised directly through equity.....	(56)	(1,380)
Deferred tax recycled from equity to income.....	0	(91)
Exchange rate differences.....	95	(188)
	<u>14,964</u>	<u>22,480</u>
Deferred tax in the balance sheet:		
Deferred tax asset.....	30,974	36,171
Deferred tax liabilities.....	(16,010)	(13,691)
	<u>14,964</u>	<u>22,480</u>

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

	Assets	Liabilities	Net
Goodwill.....	25,131	(10,093)	15,038
Intangible assets.....	835	(5,831)	(4,996)
Operating fixed assets.....	164	(951)	(787)
Tax loss carry forward.....	859	0	859
Inventories.....	1,711	(87)	1,624
Provisions.....	0	(235)	(235)
Current liabilities.....	2,333	0	2,333
Receivables.....	330	(1,271)	(941)
Other.....	2,103	(34)	2,069
Total tax assets / (liabilities).....	<u>33,466</u>	<u>(18,502)</u>	<u>14,964</u>
Tax asset and liabilities offsetting.....	(2,492)	2,492	0
	<u>30,974</u>	<u>(16,010)</u>	<u>14,964</u>

# Notes to the Consolidated Financial Statements

## 31. Provisions

	31.12.2011		31.12.2010	
	Current	Non-current	Current	Non-current
Warranty (i).....	2,686	4,339	1,110	4,653
Other.....	948	154	1,472	65
	<u>3,634</u>	<u>4,493</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.....	<u>5,763</u>	<u>1,537</u>	<u>7,300</u>
Additional provision recognised.....	4,814	114	4,928
Utilization of provision.....	(3,552)	(527)	(4,079)
Exchange differences.....	0	(22)	(22)
Balance at 31 December 2011.....	<u>7,025</u>	<u>1,102</u>	<u>8,127</u>
Non-current.....	4,339	154	4,493
Current.....	2,686	948	3,634
Balance at 31 December 2011.....	<u>7,025</u>	<u>1,102</u>	<u>8,127</u>

## 32. Related party transactions

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

## 33. Other liabilities

	31.12.2011	31.12.2010
Accrued expenses.....	7,452	8,004
Accrued Royalties.....	1,536	1,400
Sales tax and VAT.....	1,816	960
Payable due to previous acquisition.....	2,324	2,324
Interest rate swap contracts, current portion.....	0	3,200
Other.....	2,273	3,261
	<u>15,401</u>	<u>19,149</u>

# Notes to the Consolidated Financial Statements

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## 34. Financial instruments

### 34.1 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.

#### Net debt to EBITDA ratio

The Company's management continuously reviews the capital structure. As a part of this review, the management considers, amongst other, the cost of capital and net debt to EBITDA.

The net debt to EBITDA at the period end was as follows:

	31.12.2011	31.12.2010
Net debt .....	111,413	132,816
EBITDA .....	75,606	74,358
Net debt/EBITDA.....	1.5	1.8

### 34.2 Significant accounting policies

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

### 34.3 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.

### 34.4 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.

# Notes to the Consolidated Financial Statements

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

	Liabilities		Assets	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
USD .....	123,672	131,845	52,893	48,455
EUR .....	59,025	100,735	31,019	40,998
GBP .....	1,483	1,352	3,935	5,247
SEK .....	2,612	3,265	2,612	5,461
CAD .....	477	566	1,759	2,095
Other .....	3,828	4,767	6,984	21,174
	<u>191,098</u>	<u>242,529</u>	<u>99,202</u>	<u>123,430</u>

## Foreign currency sensitivity analysis

The Company is mainly exposed to the currency of Iceland (ISK) and the Eurozone (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 <sup>(i)</sup>		ISK <sup>(ii)</sup>	
	2011	2010	2011	2010
Profit or loss .....	2,487	1,841	(2,264)	(2,267)
Other equity .....	11,283	8,716	(10)	(189)

(i) 25% (2010: 27%) of the Company's operating cost is in EUR against 31% (2010: 31%) of its income causing an increase in profit if the USD decreases against the EUR.

(ii) 9% (2010: 10%) of the Company's operating cost is in ISK against 0.3% (2010: 0.4%) of its income causing a decrease in profits if the USD decreases against the ISK.

## 34.5 Interest rate risk management

The Company is exposed to interest rate risk as funds are 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 2.61% for periods up to March 2016 are outstanding at year end with nominal values of USD 58 million (2010: USD 84 million). At year end the fair value of the swaps amounted to negative USD 2.2 million (2010: negative USD 5.4 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.

# Notes to the Consolidated Financial Statements

## 34.6 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 88.2 million (2010: USD 10.0 million) to further reduce liquidity risk.

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

	Weighted average effective interest	Less than 1 year	1-5 years	5+ years	Total
<b>2011</b>					
Borrowings .....	6.65%	30,773	128,576	0	159,349
Non-interest bearing liabilities .....	-	53,962	19,377	0	73,339
		84,735	147,953	0	232,688
<b>2010</b>					
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

## 34.7 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. On going credit evaluation is performed on the financial condition of accounts receivable.

# Notes to the Consolidated Financial Statements

## 35. Operating lease arrangements

Payments recognised as an expense:

	2011	2010
Minimum lease payments.....	10,933	8,533
Non-cancellable operating lease commitments		
	31.12.2011	31.12.2010
Not longer than 1 years.....	11,476	9,614
Longer than 1 period and not longer than 5 years.....	33,038	26,349
Longer than 5 years.....	2,430	10,236
	<u>46,944</u>	<u>46,199</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars. Thirty six rental agreements are in place in multiple countries. The leases expire in the periods 2012-2017.

## 36. 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.

Össur has filed a civil action in the US against a competitor in the prosthetic market and alleges that it infringes certain of the Company's patents. The competitor has denied the allegations and claims the patents are invalid. The likely outcome remains uncertain.

## 37. Insurance

	Insurance value	Book value
Fixed assets and inventories .....	191,000	93,010

The Company has purchased a business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 430 million (2010: 401 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 deductible amount on the product & professional liability and product recall insurances is USD 50 thousand.

## 38. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by the board of directors and authorised for issue on 8 February 2012.

## Appendix I - Unaudited Information

### A 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.

#### A1 Quarterly statements

The following quarterly split includes the reclass explained in Note A2:

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2011
Net sales .....	97,991	101,315	105,024	96,995	401,325
Cost of goods sold .....	(37,473)	(37,596)	(41,628)	(35,558)	(152,255)
<b>Gross profit</b> .....	60,518	63,719	63,396	61,437	249,070
Gross profit margin .....	62%	63%	60%	63%	62%
Other income .....	1,203	190	654	56	2,103
Sales and marketing expenses .....	(30,375)	(29,442)	(30,075)	(29,421)	(119,313)
Research and development expenses .....	(5,157)	(4,811)	(5,065)	(4,621)	(19,654)
General and administrative expenses .....	(13,442)	(12,057)	(12,014)	(12,293)	(49,806)
<b>Profit from operations</b> .....	12,747	17,599	16,896	15,158	62,400
Net financial income /expenses .....	(2,116)	(2,526)	(2,444)	(3,431)	(10,517)
Net exchange rate difference .....	(391)	(417)	(382)	(862)	(2,052)
Total financial income/(expenses) .....	(2,507)	(2,943)	(2,826)	(4,293)	(12,569)
<b>Profit before tax</b> .....	10,240	14,656	14,070	10,865	49,831
Income tax .....	(2,585)	(4,010)	(3,762)	(2,843)	(13,200)
<b>Net profit</b> .....	7,655	10,646	10,308	8,022	36,631
EBITDA .....	16,353	21,061	19,922	18,270	75,606
EBITDA ratio .....	17%	21%	19%	19%	19%

#### A2 Reclassification within operating expenses

Historically, expenses relating to the management of sales and marketing functions have been classified as general and administrative expenses. For better comparison to other companies and for internal management reasons, management has decided to reclass these costs as sales and marketing expenses. The below table shows the reclass performed for both 2011 and 2010 in these Financial Statements. This reclass does not affect total operating expenses nor the result in the Consolidated Income Statement.

<b>2011 Reclass</b>	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Total 2011
Sales and marketing expenses .....	(2,182)	(2,245)	(2,172)	(2,012)	(8,611)
General and administrative expenses .....	2,182	2,245	2,172	2,012	8,611
<b>Profit from operations</b> .....	0	0	0	0	0
<b>2010 Reclass</b>	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2010
Sales and marketing expenses .....	(2,155)	(2,052)	(2,011)	(2,185)	(8,403)
General and administrative expenses .....	2,155	2,052	2,011	2,185	8,403
<b>Profit from operations</b> .....	0	0	0	0	0